ADDITIONAL FINANCING COSTS ASSOCIATED WITH RESOLVING INSOLVENT SAVINGS AND LOANS INSTITUTIONS

HEARING

BEFORE THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

ONE HUNDRED FIRST CONGRESS

SECOND SESSION

SEPTEMBER 19, 1990

Serial 101-125

Printed for the use of the Committee on Ways and Means

U.S. GOVERNMENT PRINTING OFFICE

36-881 WASHINGTON : 1991

For sale by the Superintendent of Documents, Congressional Sales Office
U.S. Government Printing Office, Washington, DC 20402

HM81-24

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ADDITIONAL FINANCING COSTS ASSOCIATED WITH RESOLVING INSOLVENT SAVINGS AND LOAN INSTITUTIONS

WEDNESDAY, SEPTEMBER 19, 1990

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, D.C.

The committee met, pursuant to notice, at 9:35 a.m., in room 1100, Longworth House Office Building, Hon. Dan Rostenkowski (chairman of the committee) presiding.

Chairman ROSTENKOWSKI. Good morning.

This morning, the Committee on Ways and Means will continue its review of issues relating to the financing of insolvent savings and loan institutions. Specifically this morning, the committee will receive testimony on the additional financing costs associated with the savings and loan bailout and recommendations for meeting those financial needs.

Last year this committee acted upon the administration's proposal for financing the savings and loan assistance program and made substantial improvements to that legislation. A year later, it is evident that the overall cost of the bailout program will greatly exceed the assumptions Congress acted under last year, and that a fair and effective method must be found to meet those financing needs.

In addition, recent reports have indicated that the insurance fund which provides depository insurance for banks may be subject to financial difficulties depending upon the health of the economy and other factors. This morning I anticipate that we will receive information relating to the future potential taxpayer costs from losses in this insurance fund.

In order for this committee to make an informed decision on the most efficient method to fund these needs, we must receive both a full accounting of the costs of the program and specific proposals for meeting those financial requirements.

As part of this process, I sent a letter to Nicholas Brady, Secretary of the Treasury, asking that he set forth proposals for funding the bailout, and he has responded by letter. I made these letters available to members of the committee this morning, and I would like to make them part of the record of these proceedings, along with the press release announcing this hearing.

[The press release and documents follow:]

FOR IMMEDIATE RELEASE
FRIDAY, AUGUST 3, 1990

PRESS RELEASE #33
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
1102 LONGWORTH HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
TELEPHONE: (202) 225-1721

THE HONORABLE DAN ROSTENKOWSKI (D., ILL.), CHAIRMAN, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCES A PUBLIC HEARING ON THE ADDITIONAL FINANCING COSTS ASSOCIATED WITH RESOLVING INSOLVENT SAVINGS AND LOAN INSTITUTIONS

The Honorable Dan Rostenkowski (D., Ill.), Chairman, Committee on Ways and Means, U.S. House of Representatives, today announced a public hearing on the additional financing costs associated with resolving insolvent savings and loan institutions. The hearing will be held on Wednesday, September 19, 1990, beginning at 9:30 a.m., in the Committee's main hearing room, 1100 Longworth House Office Building.

In announcing this hearing, Chairman Rostenkowski stated: "Last year, Congress passed legislation providing $50 billion to finance the resolution of insolvent thrift institutions. Now, less than one year later, the Administration has testified before Congress that more funds will be needed for the bailout by the end of the current fiscal year. Last month, I sent a letter to the Honorable Nicholas Brady, Secretary of the Treasury, urging in the strongest possible terms that the Administration send their legislative recommendations on this additional funding to the Congress as soon as possible. The Congress, including the Committee on Ways and Means, must make an informed decision on the most efficient manner to proceed in this financial crisis. These decisions can only be made after the Committee receives from the Administration both a full accounting of the costs of the bailout, including costs under various economic assumptions, and a specific set of proposals and recommendations for meeting those financial needs."

Oral testimony will be heard from invited witnesses only. It is anticipated that such invited testimony will include testimony from the Department of the Treasury, the Resolution Trust Corporation, the General Accounting Office, the Congressional Budget Office and the Federal Reserve Board. Any interested individual or organization, however, may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

For those who wish to file a written statement for the printed record of the hearing, six (6) copies are required and must be submitted by the close of business on Wednesday, September 26, 1990, to Robert J. Leonard, Chief Counsel, Committee on Ways and Means, 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements for the record of the printed hearing wish to have their statements distributed to the press and the interested public, they may provide 150 additional copies for this purpose to the Committee office, room 1102 Longworth House Office Building, before the hearing begins.

FORMATTING REQUIREMENTS:

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will **not** be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be typed in single space on legal size paper and may not exceed a total of 10 pages.
2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.
3. Statements must contain the name and capacity in which the witness will appear or, for written comments, the name and capacity of the person submitting the statement, as well as any clients or persons, or any organization for whom the witness appears or for whom the statement is submitted.
4. A supplemental sheet must accompany each statement listing the name, full address, a telephone number where the witness or the designated representative may be reached and a topical outline or summary of the comments and recommendations in the full statement. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press and public during the course of a public hearing, may be submitted in other forms.

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COMMITTEE ON WAYS AND MEANS

U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, DC 20515

July 24, 1990

The Honorable Nicholas F. Brady
Secretary of the Treasury
Department of the Treasury
15th and Pennsylvania Avenue
Washington, D.C. 20220

Dear Mr. Secretary:

From recent press reports and Treasury testimony before the Committee on Ways and Means and other Congressional committees, it is apparent that additional funding will be needed for the Resolution Trust Corporation (RTC). I would urge in the strongest possible terms that the Administration send their legislative recommendations on this additional funding to the Congress as soon as possible.

If, indeed, funding is needed before adjournment of the 101st Congress this fall, time will be needed to process the Administration's legislative request through Congress. We cannot be expected to provide billions of dollars of additional funding for the RTC if we are notified at the last moment.

I thank you in advance, Mr. Secretary, for your attention to this request.

With warm regards, I am

Sincerely yours,

Dan Rostenkowski
Chairman

OVERSIGHT BOARD
RESOLUTION TRUST CORPORATION
Washington, D.C. 20232

August 20, 1990

The Honorable Dan Rostenkowski
Chairman
Committee on Ways and Means
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

This letter responds to your inquiry about the provision of additional funding for the Resolution Trust Corporation (RTC).

The Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) effectively imposes two limitations on RTC funding. It provides $50 billion to cover losses ("loss funds"), through a combination of appropriations, industry contributions, and the Resolution Funding Corporation. It also places a limit on the maximum amount of obligations which the RTC can have outstanding (the "note cap").

On May 23 before the Senate Banking Committee and again on June 14 before the House Banking Committee, the Oversight Board testified that the RTC would soon need additional resources. We stated that the RTC "could, with an aggressive schedule of case resolutions, run out of funds by the end of this calendar year or early next year." We further stated that the "RTC is likely to run up against the obligation limitation as soon or even sooner than it reaches $50 billion in losses."

With the adoption of a fourth quarter funding plan at the beginning of July, the Oversight Board and the RTC were able to identify more precisely the point at which existing resources may be exhausted. As Under Secretary Glauber testified before your Committee on July 11, 1990, RTC projections show that it will use almost all of its borrowing capacity under the note cap by September 30, 1990. At that point, it would still have about $12 billion in loss funds available. If the RTC were unconstrained by the note cap, we would expect it to exhaust almost all of its remaining loss funds by the end of this calendar year.

In testimony before the House Banking Committee on July 30, 1990, Under Secretary Glauber outlined three approaches which might be considered for providing the RTC with additional funds to cover losses:

1. A short-term funding bill, to keep resolution activity going into the early part of 1991. The RTC estimates that it will need $5 billion in loss funds to carry it through January 1991 and $10 billion through February 1991;

2. Funding to cover estimated needs for fiscal year 1991 or another intermediate period. We estimate that the total resources which the RTC will need in FY 1991 to cover losses should range from approximately $30 billion to approximately $50 billion. This range includes any amount remaining in FY 1991 from the original $50 billion provided in FIRREA, which we presently estimate to be about $12 billion; or

3. A permanent and indefinite appropriation, to complete the job of resolving failed thrifts.

The Administration does not at this time have a specific proposal for lifting the restriction on borrowing posed by the note cap. However, we believe that the current interpretation of the note cap will continue to produce what we believe is an unintended result: the RTC will repeatedly find itself constrained by the cap well before it has used up authorized loss funds. This is exactly what is projected to happen in the first quarter of fiscal 1991. As a result, the obligation limit must be addressed in any legislation dealing with RTC funding needs.

As you can see, beginning last May and on several occasions since then, we have raised the need for additional funds for RTC. We stand ready to work with the Congress on legislation which would give the RTC the resources it needs to carry out its duties under the law.

Sincerely,

Nicholas F. Brady

Chairman ROSTENKOWSKI. Our first witness this morning will be the Honorable Paul Kanjorski of Pennsylvania, but before I recognize Mr. Kanjorski, I will yield to any member who would like to make an opening statement.

Mr. Archer.

Mr. ARCHER. Mr. Chairman, thank you very much. I appreciate your calling these hearings so that we on this committee can get a better picture of what is going on.

I welcome our witnesses and hope that we can move forward in revising our approach toward the resolution of the insolvent savings and loan institutions.

When Congress enacted FIRREA last year, the anticipated price tag was $50 billion, but the real cost, as we all know, has been moving higher, and it is a moving target. Some reports say that it could be double, triple, quadruple, or perhaps even more, the initial estimates.

I think, Mr. Chairman, that parenthetically it is important to note the fact that this is not a bailout for the savings and loan institutions; it is a bailout for the depositors. Actually, it really isn't even a bailout. It is the fulfilling of the Federal Government guar-

antee on deposits to the depositors to make them whole and to keep the Federal contract.

No dollars have gone to managers or investors in the savings and loans. I think that should be made very, very clear to the entire country.

Whatever the actual amount of the total Federal input required, the Government is going to have to marshal significant resources for this purpose. In addition to the savings and loan industry, the commercial banking system is now showing strains. The FDIC fund has been drawn down; the FDIC premium on bank deposits will be increased to bolster the fund.

Will this action be sufficient to allow the FDIC to move promptly in addressing problem banks? I hope our witnesses can give us that answer.

Part of the answer to the solvency of the savings and loans and the banks lies in the state of the economy, the direction of interest rates, and the real estate sector. Although no one can predict these factors with certainty, our witnesses should help us gauge how the costs will vary with the economy over the coming few years.

Insurance-type funds sponsored by the Government are effective not just because of the balance in their account ledgers, but because of the public confidence that they instill. This is true of the old FSLIC, the FDIC and the SPIC.

Potential liability of these insurance funds is astronomical compared to their actual assets. What makes them effective is the public confidence that the Federal Government will stand behind them. Let's make sure that that confidence is not broken.

Chairman ROSTENKOWSKI. Any other members?

Mr. Pickle.

Mr. PICKLE. Thank you, Mr. Chairman.

It is sobering to realize that the estimates for the savings and loan bailout have doubled in 1 year from around $50 billion to as high as $130 billion, depending on the values assessed.

In addition to these high figures, the RTC needs to have access to working capital because they have got to have funds to cover the insured deposits and to move property. Now, I am glad that working capital is being more closely analyzed, and I am pleased that Treasury is keeping down the costs by borrowing much of this from the Treasury—and that is important. But I think also that we ought to be concerned about what costs RTC would have if they are not able to dispose of their property quickly, or if the assets that the RTC holds are not efficiently managed.

So this morning, I hope we can hear something specifically now from RTC with respect to its policy on performing loans; the fees and costs under their management system; the approach RTC wants to take on seller financing so that the property can be moved, and what policy the RTC might have with respect to the endangered species assets that the RTC might hold.

These are some critical practical questions that I'm going to be talking to the witnesses about, Mr. Chairman, and I thank you.

Chairman ROSTENKOWSKI. Mr. Schulze.

Mr. SCHULZE. Thank you, Mr. Chairman.

I would just like to welcome our colleague Mr. Kanjorski, who is a great asset to the Pennsylvania delegation. He is a dynamic,

hardworking young man who has taken a leadership role in many of the issues facing the Commonwealth of Pennsylvania. We are pleased to have him and pleased to have him before the committee this morning.

Paul, I welcome you.

Chairman ROSTENKOWSKI. Any other comments?

[No response.]

Chairman ROSTENKOWSKI. Welcome, Representative Kanjorski. You may proceed.

STATEMENT OF HON. PAUL E. KANJORSKI, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA

Mr. KANJORSKI. Thank you very much, Mr. Chairman.

Mr. Chairman, first let me congratulate the committee on something it did last year in FIRREA. You took the hard position to pay for this problem within 3 years, and I favored that position. One of the reasons as a member of the Banking Committee I finally found it unconscionable to support FIRREA, and voted against it, was the fact that we were allowing the administration to cover up where the costs were coming from; I saw a second problem, that the administration totally underestimated the cost, and third, I felt that they unfairly apportioned the responsibility for the cost—not that we wanted to have any one State or area of the country pay for the burden, but it was apparent to the people and to the Congress that the overwhelming cause of this problem was failure of State supervision and State regulation and extraordinary State powers in certain areas of this country, and the State that was primarily responsible was Texas.

Coming from Pennsylvania, though, I appreciate that you can have regional recession and difficulty. And as an American, I felt that we had to help Texas in its time of need, and we did that. And we provided no punishment in FIRREA for the failures of the State of Texas in regulating or supervising its savings and loans.

But today is another day. Today is the day that the President said, last week that he is not going to allow anyone to contemplate profiteering from the crisis in the Mideast; he will not have any of that, he said.

Well, I think that indicates that he should join us in legislation that would bring some equity and balance to this situation, this tremendous flow of capital that will go from the rest of the country to the Southwest. And the best way of doing that is the bill that I have introduced, H.R. 5551. It provides for the reinstatement of the windfall profits tax on crude oil. The only significant difference from the repeal of that tax back in 1988 is that we have updated the definition of new-oil date to the day before the Mideast crisis.

If we were to press the bill, we would accomplish two things. We would recognize, one, that the pain and suffering of the American people to pay more money and have a disruption of the economy is going to be there anyway; but two, rather than seeing the estimated $50 billion in windfall profits that will go to the multinational oil companies at the present rate of oil being paid in the world market, we would see a tax that could recoup about $15 billion a year of that excess profit. And if we applied these funds as my bill

calls for totally to the savings and loan bailout, we could accomplish the payment of the additional funds necessary, as the administration has just indicated, of approximately another $70 billion—we would raise that within 5 years, Mr. Chairman—and perhaps, if we kept it in place for the full 10 years, and if the price of oil remains at the price it is today, and in 10 years, the American people would not have any more pain and suffering.

I urge the committee to realize several things. One, most of the country did not engage in the problems that occurred in the Southwest and caused this debacle in the savings and loans. But we will never know all the contributing reasons, although we do know excessive powers, lax regulation and supervision, and in some instances outright fraud, all contributed to the problem.

We have had the rise and fall in Texas, basically boom and bust, in the Southwest based on an oil-based economy. When that oil economy was down, we didn't subject any request to have them help pay for the burden. Now that economy will reap untold benefits from the price of oil that artificially has gone up by the despicable action of a dictator in the Middle East.

We should not allow the distribution of wealth in this country to unfairly flow to the Southwest in even greater proportions because of an unfortunate action by a dictator in the Middle East. It is time that this Congress and the American people have equity, fairness and justice applied to this problem. We can best do that by reinstatement of the windfall profits tax, moving the effective date of new oil up to that discovered after August 1, 1990, the day before the invasion, and in that way raise sufficient funds to meet the shortfalls that the administration now indicates will occur in the savings and loan debacle. I urge the members of the committee to participate in that, and Mr. Chairman, I ask unanimous consent to revise and extend my remarks in the record.

Chairman ROSTENKOWSKI. Without objection, so ordered.

[The statement of Mr. Kanjorski follows:]

Testimony of

CONGRESSMAN PAUL E. KANJORSKI

On a Windfall Profits Tax on Oil to Finance the S&L Cleanup

House Ways and Means Committee

September 19, 1990

Mr. Chairman, members of the Committee, I appreciate this opportunity to testify today on my bill, H.R. 5551, introduced on September 5, 1990, to finance the savings and loan cleanup through a Windfall Profits Tax on the ballooning unearned profits of the multinational oil companies.

Mr. Chairman last year your Committee approved legislation to provide $50 billion to clean up failed and failing savings and loans. Your job was not easy and to your credit you proposed doing it honestly, without any accounting gimmicks, but with direct, on-budget, Treasury financing. Your Committee even bravely voted 25 to 11 to pay for the cost of the bailout over three years, rather than saddling our children with hundreds of billions of dollars of additional interest for years to come.

Unfortunately, Mr. Chairman, the President said he would veto your wise proposal and as a result the conferees had to resort to "blue smoke and mirrors" to hide the cost of the cleanup. At the administration's insistence, $20 billion was hidden in the FY 1989 budget and the remaining $30 billion was borrowed through more expensive off-budget REFCORP borrowing. Then lo and behold the original 30-year REFCORP bonds suddenly became 40-year bonds, pushing total interest costs up even higher.

Now comes the administration with even more bad news. Once again, for at least the fifth year in a row, it has misled the Congress and underestimated the cost of the savings and loan mess. Instead of the $1.6 billion estimate of December 1985, the $10.5 billion estimate of December 1986, the $15 to $16 billion estimate of February 1988, the $30.9 billion estimate of June 1988, or the $45 to $50 billion estimate as late as October 1988, it seems that the sky is the limit. The S&L cleanup may finally enable us to answer the age old question, "How high is up?" Tens of billions more will be needed to complete the job.

Before asking the American people to contribute another dime to this debacle, we need to ask ourselves the question, "What is responsible for this mess in the first place?"

While there are many contributing factors, from lax regulation and supervision to excessive powers and outright fraud, experts agree that a major factor was the boom and bust in the oil-based economy of the Southwest. The rise and fall in oil prices fueled both the overbuilding, and then the collapse, of the real estate market in this region.

Today, as a result of Saddam Hussein's invasion of Kuwait, and the resulting doubling in the price of oil (from just over $16 a barrel in June to more than $33.60 a barrel on Monday), we have an opportunity to put the most recent boom in oil prices to work for U.S. taxpayers -- ameliorating a problem it helped create in the first place.

My bill, H.R. 5551, would reinstate the old Windfall Profits Tax on oil company profits, with one significant change. It updates the dividing line between "new oil" and "old oil" to August 1, 1990, just before Saddam Hussein's invasion of Kuwait.

With the price of oil up more than $17 a barrel in just three short months, and with approximately 3 billion barrels a year produced in the U.S., the oil companies' **additional** profits on this oil alone will exceed $50 billion a year.

To put this in another context, for five months White House and Congressional negotiators have been struggling to draft a budget package to reduce the deficit by $50 billion. That package will ultimately contain many painful budget cuts and "revenue enhancements." Yet it will still be smaller than the oil companies' **additional** profits.

H.R. 5551, which I introduced the day we returned from the August district work period, proposes taking about one-third of those new windfall profits, $15 billion, and using them to finance the savings and loan cleanup. It is carefully drafted to differentiate between "new oil" and "old oil," between expensive to recover oil and easy to recover oil, and between the major multinational oil companies and the small, independent, wildcatters. By exempting "new oil" from all taxes unless its price rises over $34.50 (and even then by taxing the excess at a much lower rate), it contains ample incentives for the oil companies to continue to search and drill for "new oil."

Last week the President of the United States, a former member of this Committee, forcefully told the American people in his address to the Congress that profiteering will not be tolerated.

By passing a Windfall Profits Tax you have an opportunity to give meaning to the President's bold declaration. Let us take the President at his word and send him a Windfall Profits Tax which will eliminate war profiteering by the multinational oil companies.

Since the American people are already paying higher prices for oil, this gives us a unique opportunity which can also save them the additional cost of the administration's "new and improved" savings and loan cleanup proposal.

Mr. Chairman, the will of the American people is clear. They do not wish to pay one more dime in new taxes for the savings and loan cleanup. A Windfall Profits Tax, such as I have proposed in H.R. 5551, gives us a chance to turn adversity to our advantage by using the oil companies' windfall to reduce our shortfall. It enables the oil companies to become part of the solution, instead of just part of the problem.

Mr. Chairman, I would ask your permission to insert in the record at this point a short summary of H.R. 5551, and my September 12, 1990 letter to the President.

H.R. 5551

Kanjorski Proposal to Reinstate the Windfall Profits Tax to Reduce the Cost of the S&L Cleanup to U.S. Taxpayers

Problem: Multinational oil companies, increasingly owned by Middle Eastern interests, are reaping tens of billions of dollars in unjustified profits as a result of the crisis in the Middle East and the resulting near doubling in the price of oil.

Problem: Estimates of the cost of closing failed thrift institutions continue to escalate and taxpayers are increasingly resentful of being asked to pay tens of billions of dollars more to solve a problem they did not create.

SOLUTION: H.R. 5551 -- Reinstate the Windfall Profits Tax on oil and dedicate the proceeds to the Resolution Trust Corporation to reduce the cost of the S&L cleanup.

Benefits: A Windfall Profits Tax raises substantial revenues without imposing any additional burden on average taxpayers. It uses definitions and mechanisms from prior law which are well understood, easy to implement, and above all, fair. It turns adversity into an asset. It enables us to pay for a significant portion of the S&L cleanup today rather than running-up hundreds of billions of dollars of interest for our children to pay.

Revenues: **More than $15 billion a year** would be raised by a Windfall Profits tax assuming an oil price of $30/barrel and thus a windfall of $8.50/barrel and a tax rate of 60% of the windfall (the midpoint between the rates on major oil companies and independents). Between 1980 and 1988 (when the original Windfall Profits Tax was repealed) it raised $80 billion, with a high of more than $22 billion in 1982. This could pay for the entire savings and loan cleanup in less than a decade. In addition, for every dollar the price of oil rises over $30/barrel an extra $1 billion is generated.

Effect on Future Oil Production and Exploration: **NONE** since the market price of oil is still below the base price of "new" oil. In addition, even if the market price did rise above the base price, the tax rate on "new" oil is relatively low and producers would still receive more than twice as much for each barrel as they did only a few months ago, more than enough of an incentive to keep drilling.

Impact on Oil Prices and Consumers: **NONE** since it only taxes windfall profits and the oil companies do not have the ability to raise the price of oil above the level set by the cartel. Consumers are already paying higher prices, it is up to us to recapture part of the oil companies' windfall profits. As recent events have amply demonstrated, oil prices only ratchet up. While companies always pass increases in wholesale prices along to consumers, they rarely, if ever, pass along decreases.

Equity: The last boom and bust in the economy of the oil patch is responsible for a significant portion of the cost of the savings and loan crisis. Reinstating the windfall profits tax will have a leveling effect on the economy of the Southwest and will relieve taxpayers of some of the cost of resolving the thrift crisis.

Mechanism: The Windfall Profits Tax divides all oil into three tiers: Tier I ("old" oil), Tier II (oil from stripper wells and the Naval Petroleum Reserve) and Tier III ("new" oil and expensive to extract heavy and tertiary oil).

A tax is imposed on the difference between the actual sales price and a "base" or reasonable price established before the oil cartel started manipulating supplies and prices. Tier I has the

lowest "base" price, while Tier III has the highest base price. Base prices are adjusted quarterly for inflation, and Tier III "new" oil receives a special adjustment 2% above the rate of inflation.

Tier I windfall profits are taxed at a higher rate than Tier II or Tier III windfall profits. Tier I and Tier II windfall profits of small independent producers are also taxed at a lower rate than the windfall profits of major multinational oil companies.

	Estimated 9/1/90 Base Price	Tax Rate for Major Producers	Tax Rate for Independent Producers
Tier I (old oil)	$21.50	70%	50%
Tier II (stripper wells and Naval Petroleum Reserve)	$26.25	60%	30%
Tier III			
(heavy & tertiary	$34.50	30%	30%
new oil	$34.50	22.5%	22.5%

Example with oil at $30/barrel: Tier III (new) oil is not taxed at all because the base price is above the sales price. For Tier II oil, the windfall is $30-$26.25 or $3.75/barrel, major producers pay a tax of 60% of that windfall ($2.25/barrel) and independents pay a tax of 30% of their windfall ($1.13/barrel). For Tier I (old) oil, the windfall is $30-$21.50 or $8.50/barrel, major producers pay a tax of 70% of that windfall ($5.95/barrel), and independents pay a tax of 50% of their windfall ($4.25/barrel).

PAUL E. KANJORSKI
11TH DISTRICT, PENNSYLVANIA

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

COMMITTEE ON POST OFFICE AND CIVIL SERVICE

CHAIRMAN
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September 12, 1990

The Honorable George Bush
The White House
1600 Pennsylvania Avenue, N.W.
Washington, D.C. 20500

Dear Mr. President:

I was extremely heartened to hear you tell the Congress firmly and emphatically last night during your address on the crisis in the Middle East:

And finally, let no one even contemplate profiteering from this crisis. We will not have it.

As you are well aware the American people are deeply concerned that they are being overcharged as a result of this artificially contrived shortage. Since June of this year, the price of a barrel of oil has nearly doubled. As a result of this price increase of $15 per barrel, American consumers will pay roughly $45 BILLION a year more just for the 3 billion barrels of oil we produce each year in the U.S.

The multinational oil companies will receive this extra $45 BILLION windfall even though it is not costing them any more to extract this oil from the ground, even though the oil was discovered some time ago, and even though they were already making a profit on it when it sold for only $16 per barrel. This is clearly profiteering.

In order to mitigate this unwarranted and unearned profiteering I have introduced H.R. 5551, legislation to impose a windfall profits tax on oil company excess profits. My bill would raise roughly $15 billion a year in new revenues without imposing an additional burden on average working families. It is also carefully drafted to encourage drilling for new oil as new oil would not be taxed unless its price rose above $34.50 (and even then it would be taxed at a relatively low rate).

My bill also seeks to put these revenues to work resolving another crisis which was created in large part as a result of the last boom and bust in the oil-based economy of the Southwest. It would transfer the new revenues to the Resolution Trust Corporation for savings and loan cleanup costs, thus making further appropriations to the RTC unnecessary.

American consumers are already paying higher prices for oil. It is time we recapture some of the windfall profits from the oil companies and put them to work for the American people.

I would welcome a letter of endorsement from you for this innovative measure to reduce profiteering and save working families the cost of further contributions to the savings and loan cleanup.

Sincerely,

Paul E. Kanjorski

Paul E. Kanjorski
Member of Congress

PEK/mr

Enclosures (2)

Chairman ROSTENKOWSKI. Are there any questions for Representative Kanjorski?

If not, I'd like to thank you very much for joining us this morning.

Mr. ANDREWS. Mr. Chairman, may I ask a few questions?

Chairman ROSTENKOWSKI. Mr. Andrews.

Mr. ANDREWS. Thank you. I really appreciate you being here this morning, Paul.

Let me just ask you very briefly if you would describe and enumerate for the committee your views in a little more detail of the reasons for the savings and loan debacle, other than the price of oil that may have contributed to that problem.

Mr. KANJORSKI. Well, untold testimony before the Banking Committee details that most of these failures, about 90 percent of them, particularly in the State of Texas but also in California and the major States that suffer from the savings and loan disaster, were State-chartered institutions; the failure of these States' legislators to pass stringent rules and to give excessive powers, and then the failure of their regulators to audit some of these institutions, thus opening them up almost as private piggy banks, created most of the problem.

Mr. ANDREWS. Deregulation by the Congress and the administration's position on financial institutions—that was a contributing factor, was it not?

Mr. KANJORSKI. I think deregulation by the Congress allowed and encouraged that whole climate of deregulation to occur at the State level. But quite frankly, far more of the responsibility in my estimation would go to failure of regulation and failure of supervision particularly on the State levels, and then also by the Federal regulatory agencies.

Mr. ANDREWS. What your legislation really does is ask people in the State of Texas or in the Southwest, that economy, to pay for the savings and loan bailout.

Mr. KANJORSKI. Well, no, no.

Mr. ANDREWS. I mean, you see the problem more as a regional problem, and you see the cleanup of that problem as more of a regional problem; is that correct?

Mr. KANJORSKI. Clearly, Mr. Andrews, 50 percent of the foreclosed properties and the savings and loan problems are in the State of Texas alone; 68 percent of the financial value are in the State of Texas alone. And in FIRREA, there is no punishment to either the Southwest or Texas to gain back any equity. And the fact is that we recognize Texas had a bust as a result of the oil falldown. But now that oil has artificially come back, there is a tremendous amount of profit there.

We suggest that——

Mr. ANDREWS. Don't you think there might be a problem in dealing with what I think most observers consider a monstrous national problem on an almost regional, case-by-case basis?

Mr. KANJORSKI. Not really——

Mr. ANDREWS. In other instances, the Chrysler bailout or the problems that New York City had—can we really make national public policy by turning to the region that is hardest hit and asking that region to pay the cost?

Mr. KANJORSKI. Well, there are two things that are happening here when you talk about the bailout. Chrysler and New York City did not get Federal funds. They received loans not grants. The State of Texas will have $68 billion in what is a modified community development project. Those real estate developments are down there, those shopping centers are down there, those residences are down there. Texas is $68 billion wealthier because of development that will be paid for by and large by the residents of the rest of the States of this country.

Now, we don't want to punish Texas. That wasn't the Texans' fault.

Mr. ANDREWS. Well, I can tell you——

Mr. KANJORSKI. But you know, Texas is one of the few States that does not have an income tax. The people in Pennsylvania, New York, California—they pay income taxes. Now——

Mr. ANDREWS. And that is another reason for your——

Mr. KANJORSKI. Now, with the price of oil going up, the flow just to the State of Texas Treasury is estimated to be over $4 billion a year. So the Texans still won't have to pay an income tax and Texas will still be a very wealthy State. They will have their property rebuilt and $68 billion invested in the infrastructure of Texas. They will come out of it with a higher income at the State level, and the people of Texas will have—I think some statistics indicate—almost a plus figure per man, woman and child of $500.

That's a pretty good windfall for having not supervised properly your institutions.

Mr. ANDREWS. This is an interesting approach to a national problem, and I really do appreciate your testimony.

How many sponsors do you have on your legislation?

Mr. KANJORSKI. To tell you the truth, we haven't really done a count so I can't tell you. But we have had a lot of inquiries and a lot of interest in it, and of course, I am hopeful that we can work together with the committee to come up with a solution that is not punishing, is not discriminatory, but is really equitable and fair to the rest of the taxpayers of the United States for the Southwest problem.

Mr. ANDREWS. Thank you, Mr. Chairman.

Mr. ANTHONY. Mr. Chairman.

Chairman ROSTENKOWSKI. Mr. Anthony.

Mr. ANTHONY. Thank you, Mr. Chairman.

I'd like to follow up on the questions that Mr. Andrews asked. In my own area, I don't have the big oil companies but I have a lot of small independent oil producers, and they were crying pretty good when oil prices looked like they were going to break $12 and even go below $10.

I didn't see anybody hollering about the failure of a national energy policy at that particular time; I didn't hear anybody from Pennsylvania, I didn't hear anybody from Boston coming forward and saying "Let's help these small independent oil producers, let's keep oil pumping, let's get an alternate energy supply going so that we won't get gouged if we have another crisis in the world."

So my question to you is simply: When the crisis is behind us and the price of oil falls, are you going to fall foursquare behind us in the region to try to get an alternate energy source going, the

proper incentives to see that we have at least a domestic production so that no region is unfairly impacted?

Mr. KANJORSKI. Mr. Anthony, I want to assure you that just last year I did write a letter to the Speaker, together with some of the committee members on the Banking Committee, requesting that we should have an energy policy.

I think it is an unfortunate thing that the President has abdicated his role in leadership here in an energy policy. But I assure you that I would support you in any way we can to stabilize the production of energy in this country and come up with alternate fuel programs, and I would suggest that perhaps a portion of this windfall profits tax could be allocated for an alternate fuel policy in the country. Nothing would be wrong with that.

All I am merely saying is that the pain is going to be there. We don't have any choices between positives. There are just negative choices. Already the American people will have to pay that $100 billion more in energy; $50 billion of it will go in excess profits to multinational oil companies that didn't delay in raising their prices immediately overnight—and they are not Texas only; there are Pennsylvania stockholders in that, too. But here is our chance that the pain is already there; let's take about a third of that profit away as a windfall profits tax, plow it back into the savings and loans so at least we don't have to go to the taxpayers again and hit them in the gut with more taxes to bail out something that they didn't have a problem with, either. They didn't cause the S&L crisis.

I also want to reassure you that my bill taxes small, independent operators at a much lower rate than major, multinational oil companies. So it addresses the concern you are interested in.

Mr. ANTHONY. Let me ask you—number 1, we understand that we are bailing out the depositors. And the depositors in Texas savings and loans came from outside the State of Texas. Those were depositors who had their moneys insured by the Federal Government. Those depositors, if you track down the source of those revenues, came from Pennsylvania, came from New York, came from Massachusetts. It wasn't just Texas money that was being insured down in Texas by the Federal Government. Those moneys were commingled with other moneys, and they came in from all other parts of the country.

Mr. KANJORSKI. But the point——

Mr. ANTHONY. You agree to that, don't you?

Mr. KANJORSKI. I agree, but the point that we miss is that Texas was the recipient of the largest community development program ever imagined in the United States because of that. Three billion a year flows to the rest of this country in community development, and through the savings and loans within 5 or 6 years, $60 billion will have flowed into Texas.

Mr. ANTHONY. Let me ask you if you would support a proposal I have had the staff working on now for several weeks. It is also called a windfall profits tax, if you'd like to call it that. I've got a different name for it.

I assume that eventually these properties will be sold by the RTC. People will find these properties, and they will buy them, and eventually they will sell them. What I'm worried about is making

sure that there is no additional fraud occurring at the time of resale—that people would have excess profits in the fraud. I'm working on a proposal and hope to get it in this current tax bill if in fact there is a budget summit that would tax the short rollover of resold properties from the RTC and try to recapture any excess gain that would occur as a result of that.

I just wonder if you think that is a good or a bad idea to track if we could properly define it.

Mr. KANJORSKI. I would certainly work with you, and I would suggest that, yes, one of the next scandals to hit the country will be the disasters as a result of the RTC.

If you just estimate they are talking about handling about $400 billion worth of property over the next 10 years and if there is just a 10 percent failure there, of either fraud, corruption, mismanagement or abuse, you're talking about another $40 billion scandal. So, yes, anything we could do——

Mr. ANTHONY. Well, I would encourage you to work with me from the Banking Committee's standpoint. I have been working on it with the staff. We are trying to narrow down the scope so that we don't hurt the marketplace. But at the same time, if there is some fraud out there where we can recapture some of——

Mr. KANJORSKI. I would suggest we should look at something like a Reconstruction Finance Corporation to put much more of this property into private hands that are able to manage, rather than the Government bureaucracy that is going to have dictatorial control over the economies of various regions of the country.

Mr. ANTHONY. Thank you, Mr. Chairman. I yield back my time.

Chairman ROSTENKOWSKI. Mr. Guarini.

Mr. GUARINI. Paul, I want to thank you for bringing up a very interesting suggestion concerning a windfall profits tax. I am concerned about the regional disparities and how unfairly some areas of the country are going to be affected by no fault of their own but because of some problems that exist in other parts of our country. And the largest part is Texas. As you point out, half, perhaps 50 percent, of the problem lies in Texas where they not only benefited from the moneys that have been lost, that came from all over the country, but they may be benefited again. And I understand the loss will be perhaps $59 billion in Texas, where my State, New Jersey, will lose $6 billion, or almost $1,000 for every person in the State of New Jersey.

You have oil in your State, too, and to bring up the suggestion in a sense makes your State pay a little bit more of the share of the windfall profits tax. What I am also concerned about is the criminal misconduct that existed. What part of our problem that we have in the failed thrifts from your Banking Committee hearings has been laid to criminal misconduct?

Mr. KANJORSKI. It is not an easy figure to arrive at, but frankly, it is one of the things that disturbs me the most. Most of the media attention and most of the attention of the people of the United States has been to the mismanagement, fraud and abuse, and it is there, and it is there at least in a proportion of maybe 25 percent of the cases, and could go as high as 30 or 40 percent. But underlying this whole problem in my estimation is something more systemic as a problem, and it is a substantive economic problem that

neither the American people, the financial institutions of this country, or the Congress has gotten to the root cause of.

As a matter of fact, one of my other bills is a select committee to examine the economic underpinnings of our entire financial system. What has happened to the savings and loans I think will happen in the banking institutions; I think it will happen in the pension funds; I think it will happen in the insurance companies, and I think it will happen in the other Government-guarantee programs across this country until we get to the underlying root causes and the long-term methods of financing these problems when they occur, rather than using the patchwork method that we use in this type of disaster.

And if for some reason we do go into a recession or a depression, it could be catastrophic. I had the occasion to speak on that just the other day. I think we in Congress are being rather blind to the potentials there. I don't want to suggest that the sky is falling rapidly, but clearly, the sky is falling at a measured rate, and we are not taking the necessary steps here in the Congress or in the country with our financial institutions to inhibit that fall.

Mr. GUARINI. I share your great concern. I understand Chairman Seidman is here, and he suggests perhaps there is even a larger amount of criminal misconduct that exists than maybe the figures you have given; we'll ask him about that later.

But Texas had been the beneficiary of this first loss and now, when we put money back into the process, they will be the beneficiary again. I think that this regional disparity should be eliminated somehow, in all fairness to the other States in the Union, that played no part in this financial loss of the savings and loan crisis.

Thank you, Paul.

Thank you, Mr. Chairman.

Chairman ROSTENKOWSKI. Mr. Archer.

Mr. ARCHER. Mr. Chairman, I had hoped not to have to get involved in this discussion. It saddens me that this has become an attempt to divide the country and pit one region against another, or the entire country against one region. The argument is, however, distructive because as a Nation we are tied together by a fabric, a financial system, that does not limit itself to State lines or regional lines.

The gentleman from Pennsylvania has alleged that in some way or another, $50 or $60 billion is going to flow unfairly from one part of the country to another region, as if we can divide ourselves economically.

More lives were lost in a war in that effort than in all of the wars in the history of this country. The gentleman comes to us today with another division between regions as if we were not one country, and that saddens me because the gentleman knows full well that whatever moneys the taxpayers put into the savings and loan problem will flow through the institutions in one region, back to depositors all over the country.

The savings and loans don't benefit from this. The losses in the real estate market, where forced home sales were to be at 40 to 50 percent less than the purchased price, is a permanent loss for those people. No economic development program, as the gentleman mentions, will flow to benefit those people who have taken that loss.

But the depositors who brokered their funds for higher interest rates in massive amounts, come from financial centers all over the United States of America, have been made whole, and this money has flowed from the taxpayers back to them.

Profits that might be generated by the oil companies do not come to the State of Texas in toto. By the way, it saddens me that "profit" is somehow made an ugly word, because it is profits that generate the economic resources to develop and to create jobs.

One of the biggest oil companies in the country has been headquartered in Pittsburgh. If there are in fact profits to the oil and gas industry, then I would cite to the gentleman that he should look up the stockholder list as to who owns these oil companies. They are not owned solely by Texans. They are owned by people all over the country. They are owned by pension plans, like the steel workers who have their money invested for their retirement in stock of the major oil companies of this country.

So if there are profits, where do those profits go? They go into the pockets of the retirement fund for steel workers and auto workers and people all over the United States.

And I would say to the gentleman when he comes here and attempts to divide this country again that it is a sad day for the United States of America.

I thank you, Mr. Chairman.

Mr. STARK. Mr. Archer, would you yield?

Mrs. KENNELLY. Mr. Chairman.

Mr. KANJORSKI. Mr. Chairman, if I may respond.

Chairman ROSTENKOWSKI. Mr. Kanjorski.

Mr. KANJORSKI. Mr. Archer, I don't come here to attack Texas. I think the best evidence in the world is that one of the largest oil companies is in my State, and it should indicate the openness with which I look at that. If my State's citizens happen to be fortunate enough to own oil companies and make greater profits, I think they should pay in greater proportion than the average American worker who didn't have anything to do with the savings and loan disaster.

And I am not suggesting that Texas has received the total windfall. But I will tell you this, that as a Member of Congress having sat on the Banking Committee for the last 5 years, in some ways I am sorry that I didn't have Pennsylvania license a lot of S&Ls because they could have redeveloped our downtowns with moneys that flow in from all over the country, and now those downtowns would be remodeled, and they wouldn't have to pay them back because they would have been bankrupted, and the Federal Government would pay it back. And——

Mr. ARCHER. I would say to the gentleman if his homeowners had to take a 40 to 50 percent loss on the value of their homes that that so-called redevelopment would not be considered as any offset.

Mr. KANJORSKI. Mr. Archer——

Mr. ARCHER. The gentleman throws around figures very, very loosely in an effort to make it appear that one region of the country has benefitted at the expense of another. The gentleman is inaccurate in that regard, and there have been article after article written in the Washington Post, the Wall Street Journal, periodi-

cals, and media across this country to disprove what the gentleman is saying.

We just have a vast disagreement on this, Mr. Chairman, and I thank you for the time.

Mr. STARK. Would the gentleman from Texas yield?

Mrs. KENNELLY. Mr. Chairman.

Mr. KANJORSKI. Could I just respond one second to show you how the effect was because we raised the requirements of capital and took away regulatory capital as a result of FIRREA that was caused by the failures of the Southwest agencies. Four of the largest savings and loans in Pennsylvania were forced to collapse at a loss of $4 billion that otherwise would not have collapsed; were healthy savings and loans that came to the rescue of this Government in 1981 and 1982. Neither the owners nor the depositors received any of the largess of the United States to help out in this time——

Mr. ARCHER. I would be happy to yield to the gentleman from California.

Mr. STARK. I thank the gentleman.

I am constrained to agree with both Congressman Kanjorski and the distinguished gentleman from Texas and suggest a compromise.

I really see no reason why we should pick out the oil companies any more than we should pick out the pharmaceutical manufacturers or any particular group, be it geographic or economic, to bear the burden of this.

However, what would be wrong—we have had windfall profits taxes in the past, and it has been subscribed to by both sides of the aisle—why not a windfall profits tax on the owners of the savings and loans, who bought them from the Federal Government?

Why not say, look, let's add up all their investment, and then take their tax benefits which we have so generously given them, and take their profits, and give them, say, 20 percent a year profit—but let's take the other 80 percent above that, if they double their money in 1 year, and let them keep 20 percent return.

So if you want to apply a windfall profits tax—and that may very well be a good idea—I am going to ask my colleagues on this committee to look into that, if we could find a way to limit obscene profits in this area. But why not have our friends from Texas join with us in this particular exercise and find the people who perhaps are the miscreants in this area?

So I'd like to work further with the gentleman on this and see if we couldn't find a coalition to do just that.

Mr. KANJORSKI. I think that's an excellent idea, Mr. Stark.

Chairman ROSTENKOWSKI. Mrs. Kennelly.

Mrs. KENNELLY. Thank you, Mr. Chairman.

Congressman, we had a very excellent witness testify before us on this topic, Felix Rohatyn. He explained the transfer of payments very well; the fact that those deposits insured went into Texas banks, and that money was used for economic development in that State.

Then the States that weren't involved, had healthy banks, got hit harder by FIRREA than the States that did have those problems.

I happen to come from Connecticut, the State that pays the most to solve this problem. Paul, I think what you are doing is saying,

"My State got hit once in this problem. Now I am trying to find an answer so that now that we are in a troubled time"—as you are in Pennsylvania, and we are in Connecticut, a recession—"we want to make sure a solution is found as we continue to try to pay for this situation by not hitting us a second time."

There has been one transfer of payments, and Mr. Archer, we understand it had to happen; it happened. What we are trying to say, and I think what the Congressman is trying to say is the second round, let's make sure the same people don't get hit.

Am I right, Mr. Kanjorski?

Mr. KANJORSKI. Absolutely, Mrs. Kennelly. Thank you very much. You put it so well and so succinctly.

Mrs. KENNELLY. Thank you.

Chairman ROSTENKOWSKI. The committee will go into recess.

Thank you, Mr. Kanjorski, for joining us.

Chairman ROSTENKOWSKI. The next witness will be Mr. Kennedy of Massachusetts.

The committee will resume its sitting at 10:30.

[Recess.]

Mr. PICKLE [presiding]. Will our guests find seats, please?

Mr. Guarini.

Mr. GUARINI. Yes, Mr. Chairman, I would like to make some observations and comments and place them into the record, and I would ask your consent and the consent of the committee if I could include this statement as part of the record at this time.

Mr. PICKLE. Without objection, so ordered.

Mr. GUARINI. Thank you.

[The statement of Mr. Guarini follows:]

STATEMENT

OF

CONGRESSMAN FRANK J. GUARINI

ON

ADDITIONAL FINANCING COSTS ASSOCIATED WITH

RESOLVING INSOLVENT SAVINGS AND LOAN INSTITUTIONS

HOUSE WAYS & MEANS COMMITTEE

SEPTEMBER 19, 1990

Mr. Chairman, recent events in the Persian Gulf and the budget summit negotiations have overshadowed, but only temporarily, the savings and loan scandal. The S&L fiasco remains the greatest financial debacle in the nation's history.

Chairman Seidman of the FDIC has estimated that about 60 percent of the failed thrifts were subject to serious misconduct, much of it criminal in nature. This week, on the floor of the House, we will debate the Crime bill, which, I am pleased to say, contains several provisions to both punish those who looted our savings and loans and to deter such action from taking place in the future.

But the S&L scandal is not merely a tale of crime and punishment. We are talking here about money -- anywhere from $90 to $130 billion, or more, in present value terms -- that will have to be raised to make good on our commitment to those holding Federally-insured deposits.

Several questions arise. First, how realistic are the administration's current cost estimates? When we enacted FIRREA, the cost was projected to be $50 billion. A little over one year later, we are told that the cost of the bailout will be double or triple this amount. Can we believe it, or is this too another unrealistic estimate?

I am particularly concerned about the working capital issue. The administration tells us that working capital, which could total as much as $100 billion, will be fully collateralized by assets and that the taxpayer will therefore be at no risk. All this assumes that the RTC can recoup the fair market value of these assets.

GAO reports that the fair market value of the RTC assets is as much as 45 percent below their book value, and that this discrepancy can only be expected to increase if we hit a recession or serious economic slowdown, as most everyone expects. Also just how accurate are the appraisals upon which the fair market value estimates are based. The RTC now has in place a procedure to reduce prices if property does not sell within a certain time and in an auction can accept prices as low as 70 percent of the appraised value, which certainly suggests that the appraisals are overly optimistic.

David Mullins, when he was at Treasury, testified that the taxpayer is exposed only if asset value falls dramatically. In other words, if we are mistaken as to fair market value, then we cannot reasonably expect to recover all our working capital, which will increase the overall cost of the bailout even more.

Mr. Mullins has also testified that substantial budget receipts from the sale of capital assets can be expected beginning in FY 1991. We will soon know whether the underlying assumptions on working capital are as flawed as virtually every other assumption that has permeated this debate.

Under either the most optimistic or pessimistic assumptions, the dollar amounts are huge. By borrowing these funds, we run the total cost of the bailout to as much as $1 trillion. Are we financing the bailout in the most economical way possible? Should the Treasury do all the borrowing? Or is it needlessly expensive to continue off-budget financing?

Or should we be even borrowing at all? Already the cost of the bailout is the main reason the Federal deficit is widening. Given the extraordinary costs of financing, we need to reexamine whether it would be preferable to raise specific funds, such as Felix Rohatyn and others have suggested, to get this scandal behind us within a few years rather than leaving it to our children.

Finally, I am greatly concerned with the question of regional equity. The bailout will result in a great redistribution of wealth throughout the country.

Arkansas, Texas and Oklahoma, to name just three states, will receive an anticipated $69 billion in Federal bailout funds in the ninties, according to Professor Edward Hill of Cleveland State, who has studied the regional impact of the bailout. Texas alone will gain $59 billion, or, on a per capita benefit basis, plus $3,510.

Conversely, the Northeast-Midwest region of the country will lose $21 billion. My state of New Jersey will lose over $6 billion, or minus $782 per person. Naturally, should the total cost of the bailout rise, as we expect, these regional inequities will only worsen.

In all, taxpayers in 37 states and the District of Columbia will be net losers, while 13 states will receive more in bailout funds than they contribute. This will be the case, even though, according to industry analyst Bert Ely, perhaps as much as 7 percent of the deposits held in failed thrifts were from other regions of the country, as a result of the brokered deposit phenomenon.

Now, I am sure we will hear that this is a national problem, that we have a national insurance scheme. I understand that. Yet lax state supervision certainly played a key role in causing this crisis. The 1981-1982 recession affected all regions of the country, but thrifts in fully half the states required no Federal assistance. California's economy boomed in the eighties, but it ranks number two behind Texas with its S&Ls holding 13.5 percent of the deposits covered by the bailout. The economies of Illinois and Ohio are very similar, but failed thrifts in Illinois cost the taxpayers seven times as much as in Ohio.

The Federal budget cannot, indeed, should not be blind to questions of regional equity. But we in the Northeast are beginning to wonder. First, there are proposals to limit the deductibility of state and local income and property taxes, which severely disadvantages our region. Then, we see the administration seeking to place the cost of replacing an aging highway infrastructure more on the states, again disadvantaging the older sections of the country. Oil import fees are again being discussed, with obvious regional disparities. Grants to state and local governments, where we in the Northeast do very well, are the quickest shrinking part of the Federal budget.

The S&L bailout is of a kind. The regional disparities are dramatic. Something ought to be done to alleviate it, if not now, certainly for the future. It is something the Committee must address in deciding on the future financing requirements of the thrift bailout.

Mr. PICKLE. Welcome to the committee, Mr. Kennedy. It is nice to have you share your views with us. I am sure that they will be penetrating and useful.

You may proceed.

STATEMENT OF HON. JOSEPH P. KENNEDY II, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MASSACHUSETTS

Mr. KENNEDY. Thank you very much, Mr. Chairman.

First of all, let me say how much I appreciate your willingness to provide this opportunity this morning. You have been personally a leader in dealing with the savings and loan crisis on this committee.

It is a privilege to testify before you and other members of this committee. I am especially glad to appear before a committee that has consistently fought for a fair resolution to the savings and loan bailout.

Last year, you championed the fight for on-budget financing. You and the committee even voted to pay for the bailout over 3 years rather than 40.

Unfortunately, the administration's off-budget gimmickry won out in the end. But you deserve full credit for its decision to stop seeking costly REFCORP borrowings in favor of straight Treasury borrowings. Working Americans can take at least some comfort that in this committee, honest budgeting is an article of faith, not an empty slogan.

Now the committee once again faces the unenviable task of authorizing funds to pay off the depositors of failed thrifts. H.R. 5499, the "S&L Financing and Anti-Fraud Enforcement Act of 1990", is one of several bailout financing proposals now before you. Unlike Mr. Kanjorski's bill, it seeks to rectify a transfer of wealth not between regions but between the working people and the very wealthy of this country. It calls for full and fair resolution of the greatest financial crisis in our Nation's history. Not just be prosecuting and punishing thrift thieves, and not just by raising new revenues to pay for the bailout, but also by lifting the bailout burden that now sits unfairly on the shoulders of the working and poor people of our country.

Mr. Chairman, a year ago, the administration told the American people that the price tag for the bailout wouldn't top $50 billion. Today we know that the bailout effort will be broke before election day, before even one-third of all bankrupt and brain-dead thrifts are put to rest. The Congressional Budget Office estimates that at least another $100 billion, excluding interest, will be needed to finish the job.

That is bad news for the administration and for us here on Capitol Hill. No one wants to vote more funds for what may be the least popular program in American history. It is even worse news for our country, since it will mean diverting tens of billions of dollars for more noble and urgent purposes, like educating our children, rebuilding and modernizing our transportation system and protecting our environment.

But it is news that hits the poor and working people hardest of all. From day one, the savings and loan crisis has been a bum deal for them. When unscrupulous thrift owners jacked up interest rates to seduce wealthy depositors, the average working person received nothing but higher rates on mortgage and small business loans. And now that depositors must be paid off, that same taxpayer is asked to foot the bill. Even though over 21,000 cases of thrift wrongdoing are just gathering dust at the Department of Justice. Even though Justice has recovered less than 1 percent of all fraud-related losses to date. And even though, after a decade of startling income growth and huge tax cuts for the most privileged, our Government has never asked less of the wealthy and powerful.

It would be hard to overestimate the rage Americans feel on this issue. In public rallies, in town meetings, and on radio talk shows, they are demanding that the current "borrow and spend" bailout

law be scrapped. They want us to know that the issue is no longer whether to pay; it is how to pay, and it is who pays. They want a pay-as-you-go program that won't bury the country in debt and mortgage their kids' future.

For that reason, two dozen colleagues joined me in sponsoring H.R. 5499. The bill has the support of unions such as the AFL–CIO, the United Autoworkers, the United Mineworkers, and the International Association of Machinists; civil rights organizations such as the NAACP, the Council of La Raza, NOW and the Rainbow Coalition; church groups like United Methodist Church, United Church of Christ, and the Presbyterian Church of the United States; other important groups such as Citizens for Tax Justice, ACORN and Public Citizen, and close to 200 other organizations that have joined in the fight for a fair bailout.

This bill proposes that the $100 billion needed to resolve the failed thrifts be raised up front over 5 years by three specific measures—first, by a 7.5 percent surtax on unearned income, interest dividends and capital gains of individuals earning over $100,000 per year, excluding the first $7,500 of such income; second, by a 5 percent surtax on the income tax of corporations earning over $75,000 a year and excluding all Subchapter S corporations; finally, by closing the so-called angel of death loophole that forgives taxes on appreciated capital gains at death.

These provisions will raise $21.2 billion per year, paying for the bulk of the bailout in 5 years rather than 40. If additional unforeseen bailout costs arise, the President is authorized to extend the measures for up to four consecutive 1-year periods.

The proposal has numerous advantages over the current bailout law. First, it is economically fair. The current law represents a massive transfer of wealth from poor to rich. It forces average taxpayers to pay for a program that has brought them nothing but higher rates on their mortgages and consumer loans.

People with plenty of money to invest, on the other hand, enjoyed 12, 13 or even 14 percent annual rates of return—all backed by the full faith and credit of the U.S. Government. The Federal Reserve recently pointed out that 28 percent of the bailout money will pay off people who had deposits of $100,000 or more. And that figure doesn't even include the many wealthy depositors who chopped up their deposits in excess of $100,000 into smaller accounts in order to receive full Federal insurance.

This is backed up by the fact that the average American in our country today has savings in banks and savings and loans of just around $2,000.

More generally, the current law puts the bailout burden on those who can least bear it. Over the last 10 years, families in the middle incomes watched their tax rates rise by nearly 4 percent. Their incomes kept pace only because wage earners have had to work second jobs and overtime.

For families at the bottom, the false promise of Reaganomics is even harsher. They have actually seen their incomes drop by 9 percent while their tax rates increased by 3 percent.

The decade was much kinder to the wealthy. Their income from dividends climbed 49 percent, from interest 106 percent, and from capital gains an astounding 109 percent; yet they enjoyed huge tax

cuts of up to 23 percent. To ask them to pay a larger share of the bailout costs is not a knee-jerk scheme to soak the rich. It is a recognition of their greater ability to pay and of the benefits that they received from the deregulatory policies of the last decade.

Nor is it too much to ask our larger corporations to pay their fair share. Over the course of the last 10 years, we have witnessed skyrocketing growth on the stock market. Working Americans, though, have had less money to invest, and so less opportunity to share in this explosion of wealth. A modest surtax restores some balance to the corporate tax equation.

Second, H.R. 5499 is fiscally responsible. Recent data from OMB and GAO indicate that the total cost of the bailout, if paid for under the current law, will total $1.369 trillion over the next 40 years. Incredibly, $913 billion of those dollars will represent the interest paid on borrowed funds. That is nearly a trillion dollar tab for our children and grandchildren, a bill that can be avoided if we have the courage to pay today for the wrongs of yesterday.

Finally, H.R. 5499 is antirecessionary. The last thing our economy needs is a lack of capital for investment and consumption. Yet, taking another $100 billion out of the capital markets siphons money from other productive investments. Moreover, the higher interest rates generated by Treasury borrowings will slow investment and growth. By contrast, H.R. 5499 will raise revenues primarily from the wealthiest one or 2 percent of the population. Upward pressure on interest rates will be avoided, and consumer demand among the remaining 98 to 99 percent of the people will not be negatively affected.

Mr. Chairman, our fellow citizens can smell that something is rotten in the state of America. The HUD scandal, the defense procurement scandal; soft treatment of white-collar criminals—Ivan Boesky, Michael Millken, and I should throw in Charlie Keating; multibillion dollar capital gains tax cuts for the super-rich; and the biggest rotting fish of all—the savings and loan crisis.

What they smell is a Government that has broken faith with them and turned over the public coffers to the well-heeled and the well-connected. They demand justice, they demand honesty, and they demand that they not be stuck paying for the fiascos they neither caused nor profited from.

H.R. 5499 will put an end to the unnecessary and unjustified expense of the bailout and allow our children to build a future better than the present.

Again I want to thank the chairman and the full committee for inviting me to testify today.

Thank you.

Mr. PICKLE. We thank you, Mr. Kennedy. The committee appreciates your testimony. I know personally of your interest and trying to be of help in this overall savings and loan difficulty because you serve on the committee of jurisdiction and have shown your personal interest. So I appreciate your testimony.

[The prepared statement follows:]

JOSEPH P. KENNEDY II
8TH DISTRICT, MASSACHUSETTS

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FINANCE AND URBAN AFFAIRS
SUBCOMMITTEES
HOUSING AND COMMUNITY DEVELOPMENT
FINANCIAL INSTITUTIONS SUPERVISION
REGULATION AND INSURANCE
INTERNATIONAL DEVELOPMENT
INSTITUTIONS AND FINANCE

COMMITTEE ON VETERANS' AFFAIRS
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Congress of the United States

House of Representatives

Washington, DC 20515

Testimony of Congressman Joseph P. Kennedy II before the Committee on Ways and Means Concerning Additional Funding for the Savings and Loan Bailout

September 19, 1990

Mr. Chairman, it is a privilege to testify before you and other members of the Committee today. I am especially glad to appear before a Committee that has consistently fought for a fair resolution of the S&L bailout. Last year you championed the fight for on-budget financing. You and the Committee even voted to pay for the bailout over three years, rather than 40.

Unfortunately, the Administration's off-budget gimmickry won out in the end. But you deserve full credit for its decision to stop seeking costly REFCORP borrowings in favor of straight Treasury borrowings. Working Americans can take at least some comfort that in this Committee honest budgeting is an article of faith, not an empty slogan.

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But it's news that hits poor and working people hardest of all. From day one, the S&L crisis has been a bum deal for them. When unscrupulous thrift owners jacked up interest rates to seduce wealthy depositors, the average working person received nothing but higher rates on mortgage and small business loans. And now that depositors must be paid off, that same taxpayer is asked to foot the bill. Even though over 21,000 cases of thrift wrongdoing are just gathering dust at the Department of Justice. Even though Justice has recovered less than 1 percent of all fraud-related losses to date. And even though, after a decade of startling income growth and huge tax cuts for the most privileged, our government has never asked less of the wealthy and powerful.

It would be hard to overestimate the rage Americans feel over this issue. In public rallies, at town meetings, and on radio talk shows, they are demanding that the current "borrow and spend" bailout law be scrapped. They want us to know that the issue is no longer whether to pay. It is how to pay. And it is who pays. They want a pay-as-you-go program that won't bury the country in debt and mortgage their kids' future.

For that reason, two dozen colleagues joined me in sponsoring H.R. 5499. The bill has the support of Citizens for Tax Justice, ACORN, Public Citizen, and the Financial Democracy Campaign, a coalition of nearly 400 unions, religious groups, and community organizations.

We propose that the $100 billion required be raised up front over 5 years, by three specific measures. First, by a 7.5% surtax on the unearned income -- interest, dividends, capital gains -- of individuals earning over $100,000 per year, excluding the first $7,500 of such income. Second, by a 5% surtax on the income tax of corporations earning over $75,000 per year, and excluding all subchapter S corporations. Finally, by closing the "angel of death" loophole that forgives taxes on appreciated capital gains at death.

These provisions will raise 21.2 billion dollars per year, paying for the bulk of the bailout in 5 years rather than 40. If additional, unforeseen bailout costs arise, the President is authorized to extend the measures for up to 4 consecutive 1-year periods.

The proposal has numerous advantages over the current bailout law. First, it is economically fair. The current law represents a massive transfer of wealth from poor to rich. It forces average taxpayers to pay for a program that has brought them nothing but higher rates on their mortgages and consumer loans.

People with plenty of money to invest, on the other hand, enjoyed 12, 13, even 14 percent annual rates of return -- all backed by the full faith and credit of the U.S. government. The Federal Reserve recently pointed out that 28% of the bailout money will pay off people who had deposits of $100,000 or more. And that figure doesn't even include the many wealthy depositors who chopped up deposits in excess of $100,000 into smaller accounts in order to receive full federal insurance.

More generally, the current law puts the bailout burden on those who can least bear it. Over the last 10 years, families in the middle watched their tax rates rise by nearly 4%. Their incomes have kept pace only because wage earners have had to work second jobs or more overtime. For families at the bottom, the false promise of Reaganomics is even more harsh: they have actually seen their incomes drop by 9%, while their tax rates increased by 3%.

The decade was much kinder to the wealthy. Their income from dividends climbed 49%, from interest 106%, and from capital gains an astounding 109%. Yet, they enjoyed huge tax cuts of up to 23%.

To ask these wealthy individuals to pay a larger share of the bailout costs is not a knee-jerk scheme to soak the rich. It is a recognition of their greater ability to pay, and of the benefits they received from the deregulatory policies of the last decade.

Nor is it too much to ask our larger corporations to pay their fair share. Over the last 10 years, we have witnessed skyrocketing growth on the stock market. Working Americans, though, have had less money to invest, and so less opportunity to

Rep. Joseph P. Kennedy II, page 3

share in this explosion of wealth. A modest surtax restores some balance to the corporate tax equation.

Second, H.R. 5499 is cost-effective and fiscally responsible. Recent data from OMB and GAO indicate that the total cost of the bailout, if paid for under the current law, will total 1.369 trillion dollars over the next 40 years. Incredibly, over 913 billion of those dollars will represent the interest paid on borrowed funds. That's a nearly trillion dollar tab for our children and grandchildren -- a bill that can be avoided if we have the courage to pay today for the wrongs of yesterday.

Finally, H.R. 5499 is anti-recessionary. The last thing our economy needs is a lack of capital. Yet, taking another $100 billion out of capital markets siphons money from other productive investments. Moreover, the higher interest rates generated by Treasury borrowings will slow growth and investment. By contrast, H.R. 5499 will raise revenues directly from the wealthiest 1 to 2 percent of the population. Upward pressure on interest rates will be avoided, and consumer demand among the remaining 98 to 99 percent of the people will not be negatively effected.

Mr. Chairman, our fellow citizens can smell that something is rotten in the state of America. The HUD scandal. The defense procurement scandal. Soft treatment of white collar criminals. Multi-billion dollar capital gains tax cuts for the super-rich. And the biggest rotting fish of all -- the S&L crisis. What they smell is a government that has broken faith with them and turned over the public coffers to the well-heeled and the well-connected. They demand justice, they demand honesty, and they demand that they not be stuck paying for fiascos they neither caused nor profitted from.

A pay-as-you-go financing plan will put an end to the unnecessary and unjustified expense of tne bailout, and allow our children to build a future better than the present.

Again, I thank the Chairman and the Committee for inviting me to testify today.

Mr. PICKLE. The Chair would like to ask the members if they have any questions.

Mr. Cardin.

Mr. CARDIN. Thank you, Mr. Chairman.

I too want to compliment my colleague Mr. Kennedy for his proposal. We need to pay for the cost of the savings and loan problems, and you have come forward with a direct way to do that. I really congratulate you for bringing this proposal forward.

There is one part of your statement that I would like to ask you about, particularly as it relates to the Banking Committee. It is shocking that there has been less than a 1 percent recovery in regard to those who were responsible. I guess my question to you is, has there been any testimony before the Banking Committee by the Justice Department or the administration as to what they anticipate recovering from those people who are responsible, and from insurance companies that had liability coverage on the actions of the officers and directors. We have asked that question here, and we haven't gotten any specific replies. I'm wondering whether the Banking Committee has received any estimates as to what types of recoveries are likely and when they would be anticipated.

Mr. KENNEDY. I think that it really is a central question that has not been effectively answered by this administration. They hold press conferences all the time, suggesting that this is a very com-

plicated and difficult task. And they have rejected more money to catch the crooks. As this committee is very well aware, when the Banking Committee along with your committee provided them with an additional $75 million to go out and prosecute the criminals, the Justice Department's answer was that they didn't need the money. And then, when Members of Congress raised questions as to why more than 824 out of 21,000 cases had not been prosecuted, when we asked why out of that, only a handful of people were in jail, serving less than 2-year sentences—whereas, if you stick up a bank with a gun in America, you are sentenced to five times as long in this country—when, out of the bailout costs to date, as I mentioned, less than 1 percent of the costs have been recovered, then all of a sudden, President Bush holds a press conference and invites all the U.S. attorneys in and says now he's going to have a full program, and he is going to spend the full $110 million that was spent.

The only talk we see from the administration is after the time to act has passed. I thought it was interesting if you notice in the papers today, Charlie Keating is finally being prosecuted—but he is not being prosecuted by the Department of Justice. He is being prosecuted by some fellow who doesn't get a single penny from the Federal Government, sitting in Los Angeles, because he is sick and tired of the Federal Government sitting on its duff, doing nothing with regard to this crisis.

I think you have raised excellent points, Mr. Cardin, and I don't think we have heard any satisfactory answers from the administration to date.

Mr. CARDIN. Thank you.

Thank you, Mr. Chairman.

Mr. PICKLE. The Chair is willing to recognize the other members, but let me point out that we have a vote on, and I would like to finish this questioning before we recess. So I hope the members will cooperate.

Mr. Levin.

Mr. LEVIN. Welcome.

In terms of capital gains at death, what do you do with the family farmer and the small businessperson?

Mr. KENNEDY. There is an exemption for the family farmer and for the small businessperson, Mr. Levin.

We wanted to take into account that the whole purpose of this was not to sock it to the ordinary people, the working people of this country. But what we are trying to say is if my grandfather happens to have bought IBM stock in 1920 or something for $10 a share, and when he dies, he gives it to me, and it is worth $100 a share, I still pay taxes at $10 a share. And that is probably an example that sticks pretty close to home in this case, but the reality is that it is just simply not fair, and it is, I think, one of the more egregious examples of how this country rewards the already wealthy rather than asking for new growth in America.

Mr. LEVIN. Well-said. Thank you.

Mr. PICKLE. Thank you.

Mr. Sundquist.

Mr. SUNDQUIST. Thank you, Mr. Chairman.

I appreciate your comments. One of the problems we have in this country is the inconsistency between what we in Congress ask others to do and what we do ourselves. Should we not turn over the records of the Members and past Members who have had problems with the savings and loans to the Justice Department, so Congress can also be investigated.

Mr. KENNEDY. Well, I think that is another fine example of the Republicans trying to come up with some way of blurring the focus on the fact that this is the largest single transfer of wealth from the working people and the poor people of America to the super-wealthy.

You guys come up with all sorts of different ways of throwing smokescreens up, but the reality is if what we are interested in doing is creating good law in America that looks out after the bulk of Americans——

Mr. SUNDQUIST. If I could reclaim my time, I think it is an example of the hypocrisy of trying to beat up on some people in this country to make news.

Mr. KENNEDY. Who am I beating up on, Mr. Sundquist? Who am I beating up on?

Mr. SUNDQUIST. Oh, the rich and the successful, and we are going to take care of the working people——

Mr. KENNEDY. Oh, excuse me. I don't think in any way, shape or form am I beating them up; I am complimenting them on the fact that their incomes have grown 100 percent in the last 10 years, while the working people's and the poor people's incomes are going down.

Mr. SUNDQUIST. I think Congress can bear a major responsibility in the savings and loan crisis, and I don't think we're going to get anywhere by making political issues out of it, Mr. Kennedy.

Mr. KENNEDY. I think if you don't want to make it a political issue, you're in the wrong job.

Mr. MOODY. Would the gentleman yield?

Mr. SUNDQUIST. I yield to my colleague.

Mr. PICKLE. Mr. Guarini.

Mr. GUARINI. Thank you, Mr. Chairman.

I want to commend you, Joe, for some very creative thinking here. We have often turned to death taxes in times when our country needed to raise money in wars in the past, and when we have gotten into financial crises. How much of the package, the component, is the estate taxes?

Mr. KENNEDY. The surtax on the unearned incomes would generate about $15.6 billion. The surtax on corporations over $75,000 a year, nonsmall business corporations, would generate about $3.6 billion. And the closing of the "angel of death" loophole would generate about $2 billion.

Those are estimates from this committee as well as from CBO.

Mr. GUARINI. All right. I understand we collect about $7 billion now, so the $2 billion would be collected from a very small segment of our economy.

Mr. KENNEDY. That's exactly right.

Mr. GUARINI. And of course, there are many billion-dollar estates out there now that weren't there before. And people make better

citizens sometimes when they are not left $1 billion, when they are left a little less money.

Let me ask you would you suggest that because this $21.2 billion is taken out of our economy, that at the same time the Federal Reserve should relax their monetary control and allow more money to go into the economy so that there would be lower interest rates?

Mr. KENNEDY. Well, obviously, I think that the whole approach of the Federal Reserve at this time being so concerned about inflation has in fact stifled a lot of economic growth in America, and I also think that due to the insistence of the regulators themselves, they have imposed a kind of de facto squeeze on monetary policy that has ended up creating the credit crunch that has so stifled so much business growth and development along the east coast of the United States and is moving into the Midwest as well.

So I think there are a lot of credit problems in America that this specific legislation would go a long way toward alleviating.

Mr. GUARINI. Thank you for your contribution.

Mr. PICKLE. The time of the gentleman has expired.

Mr. Russo.

Mr. RUSSO. Thank you very much, Mr. Chairman.

Joe, as I understand your proposal, it is basically saying that those individuals in this country who have had a 94 percent increase in real income over the last 10 years and who have seen their tax rate reduced by 23 percent are the people you are saying ought to pay for the bailout because they are basically the bulk of the people who get the $100,000 full faith and credit of the Federal Government.

Mr. KENNEDY. That's exactly right.

Mr. RUSSO. And what you are saying is that those individuals who have seen their incomes actually stay stagnant, but have seen the rates go up, are people we ought to give a break to?

Mr. KENNEDY. Well, I don't know if it is "giving a break"—it is——

Mr. RUSSO. Well, in the sense that they will not have to pay as big a share of the bailout according to your proposal.

Mr. KENNEDY. Yes, and let's recognize that they have already paid an enormous share of the first portion of the bailout.

Mr. RUSSO. Well, it seems to me that equity only requires us to do things that those individuals who benefit so enormously from this whole deregulated scheme in the savings and loan ought to be prepared to pony up. They have been at a party for 10 years, having a wonderful time, and all we're saying is it's time to pay for a little bit of the party.

Mr. KENNEDY. That's exactly right, Mr. Russo.

Mr. RUSSO. I think the gentleman's bill goes in the right direction.

Mr. KENNEDY. Thank you.

Mr. PICKLE. Thank you very much.

Mr. Kennedy, again we thank you for your testimony. It was very helpful. We appreciate your attendance.

Mr. KENNEDY. Thanks very much.

Mr. PICKLE. Now the Chair would ask Mr. Seidman, Chairman of the Resolution Trust Corporation, and Mr. Ryan, Chairman of the

Office of Thrift Supervision, if you would please take your positions at the witness table.

The House has a vote on, and we will stand adjourned for 10 minutes, and then we'll proceed with your testimony when we come back.

[Recess.]

Mr. PICKLE. The Chair would ask the committee to come to order.

We are pleased now to hear testimony from Mr. William Seidman, chairman of the Resolution Trust Corporation, and from Mr. Timothy Ryan, representing the Office of Thrift Supervision.

Mr. Seidman and Mr. Ryan, we regret that we have been a little slow in getting to your testimony, but these exchanges will take place among the members. We welcome you here.

Now, Mr. Seidman, if you will proceed, and both you and Mr. Ryan, your entire statements will be made a part of the record.

Mr. Seidman.

STATEMENT OF HON. L. WILLIAM SEIDMAN, CHAIRMAN, RESOLUTION TRUST CORPORATION

Mr. SEIDMAN. Thank you, Mr. Chairman, and good morning, Mr. Chairman and members of the committee. It is a pleasure to be here today representing the Resolution Trust Corporation.

Today I would like to discuss the funding needs of the RTC. These can be summarized as follows.

The first $50 billion of funds provided for losses by FIRREA will be used up by December 31 of this year. The RTC will need a minimum of another $50 billion in additional funds to take care of losses to resolve the estimated total caseload which we know about at this time. So that is the $50 billion that will be used up that was given to us by FIRREA by December 31, and we believe that another $50 billion will be needed to cover additional losses, and that is a minimum amount.

The RTC will hit its obligation ceiling sometime during the quarter starting in October of this year. If additional working capital funds are not provided, the pace of resolutions will be tied to asset sales and will slow to only a handful of institutions per quarter.

The RTC will need up to $18 billion of working capital for the quarter beginning in October of 1990 and $50 to $60 billion in fiscal 1991 to continue a full schedule of resolutions. So if I could repeat, Mr. Chairman, we need an additional $50 billion to fund losses, and we need another $50 to $60 billion to fund working capital.

It is important to note that the funding needs of the RTC are very difficult to predict, as the future always is. The total amount of funds that the RTC will need depends on the number of institutions it is asked to handle and the funds it recovers from the sale of assets. These in turn depend on economic conditions, most notably the level of interest rates and the strength or weakness of real estate markets.

The RTC Oversight Board has estimated that the RTC will need a total of $90 to $130 billion of funds to provide for losses in present value terms.

We have stated that we cannot tell the magnitude of the loss in the thrift industry without onsite examinations. The FDIC's Division of Supervision has completed a preliminary review of the thrift industry, and although we have not been onsite at every thrift, our division has not found any evidence that would require a different estimate than that given by Treasury—that is, $90 to $130 billion. However, it does appear that the losses will be at the higher end of the estimate under current conditions.

I must say, however, that we have been surprised in the past, and it is possible we will be surprised again. In particular, we do not have the data to estimate accurately the potential cost of shutting down in excess of 1,000 thrifts if the economy and the real estate markets around the country enter into a prolonged slump.

The committee's letter of invitation asks that we make specific proposals and recommendations on how to meet the RTC's financial needs. Unfortunately, when it comes to funds for losses, we know of no alternative to having the funds provided by the American taxpayer. How large an appropriation we need depends on how soon Congress wants to revisit this issue. As we have just mentioned, we estimate that we need a minimum of $50 billion of additional funds for losses in order to resolve the institutions that will come to the RTC that we are aware of now. But there is a significant possibility that we will need considerably more.

If we are to keep up the current pace of resolutions, we need at least $30 to $40 billion of these funds for losses during fiscal 1991 and $15 to $20 billion of these funds for losses from January through April 1991.

As far as working capital needs are concerned, FIRREA contains the possibility of raising the RTC's obligation limit by $18.8 billion over the limit as it is currently being applied. The RTC Oversight Board has not given us permission to use this authority to date. Use of this authority would provide the RTC with enough working capital for the quarter that begins in October of 1990.

With respect to working capital, we believe that Congress should consider raising the amounts available to the RTC for working capital, since under the current law the RTC can borrow only 85 cents for every dollar of working capital it needs, 85 cents on every dollar of assets, which it has.

If FIRREA were to allow the RTC to borrow 100 percent instead of 85 percent of fair market value of assets, we would be able to operate in a more efficient manner, with less need for constant requests for working capital. Since the ultimate costs will be the Government's in any event, it does not seem that the Government is taking any real risk if a change were made in the law in this regard.

I regret that I again appear to provide you with bad financial news, but have been able to find no alternative.

Thank you.

[The prepared statement follows:]

STATEMENT OF L. WILLIAM SEIDMAN, CHAIRMAN
RESOLUTION TRUST CORPORATION

Good morning, Mr. Chairman and members of the Committee. It is a pleasure to be here today representing the Resolution Trust Corporation (RTC).

Today, we will be discussing the funding needs of the RTC. The RTC has been in existence for slightly over one year. By the end of this month, we expect to have resolved close to 300 institutions at an estimated cost of $36 billion. If we keep the current resolution pace, by the end of this calendar year we will have resolved well in excess of 350 institutions. We also will have used up virtually all of the $50 billion provided to the RTC by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) to cover losses.

The total amount of additional funds the RTC will need to cover losses is very difficult to predict. However, given the information we have today, it appears that the RTC will need a minimum of $50 billion of additional loss funds. Depending on economic conditions, we may need more. If we are to keep up the current pace of resolutions, $30 billion to $40 billion of these funds will need to be received during the fiscal year that begins October 1.

The RTC also borrows funds for working capital. Given the limitations on RTC borrowings, we will need additional working capital funds during the first quarter of FY 91. Based on our current estimates, we will need up to $18 billion of working capital funds next quarter and $50 billion to $60 billion over the course of the upcoming fiscal year.

Uses of RTC Funds

RTC funds are used for two basic purposes: to make up the loss at insolvent thrift institutions so insured depositors may be made whole, and for working capital. Working capital is used in turn for two purposes: for the temporary funding of assets acquired by the RTC in the resolution process pending the eventual sale of those assets, and for advances to RTC conservatorships for liquidity purposes and to replace high-cost funds. The RTC's working capital needs would be much greater if not for its aggressive sale of assets out of conservatorship. These sales limit the amount of assets which pass to receiverships and provide liquidity to conservatorship institutions.

FIRREA provided the RTC with $50 billion in funds to cover losses. In order to obtain funds for working capital, the RTC borrows from the Federal Financing Bank (FFB). FFB borrowings, like any other type of RTC borrowings, are subject to an overall obligations limitation imposed by Section 501(b) of FIRREA. This debt cap, as currently implemented, restricts RTC borrowing to 85 percent of the fair market value of its non-cash assets, plus its cash and the remaining balance of unused REFCORP borrowing authority.

FIRREA also contains the possibility of raising the RTC's obligations limit by $18.8 billion over the limit we have just described. The Treasury Department has indicated that it would not allow the RTC to use this borrowing authority without first advising Congress, and we will not use this authority unless instructed to by the Oversight Board.

Impact of the RTC Obligations Limit on Funds Expenditure

One implication of the obligations limit is that unless acquirers of failed thrifts are willing to acquire <u>all</u> the assets of a failed institution--which our experience clearly demonstrates is not the case--the RTC cannot use the entire $50 billion provided to it by FIRREA without slowing down the pace of resolutions to correspond to the sale of assets. This occurs because FIRREA essentially requires the RTC to keep a 15 percent capital cushion, denominated in unused REFCORP funds, against working

capital borrowing. It is mathematically impossible to keep this capital cushion and at the same time use all the REFCORP funds.

During the first year of our existence, the obligations limit has not affected our operations. It is just now beginning to pinch, and starting next quarter we expect it to constrain the resolutions process.

Expenditures Through the Fourth Quarter of FY 90

Through September 4 of this year, the RTC resolved 241 institutions and used approximately $75 billion in funds. Slightly under 35 percent of these funds, or $25.9 billion, was used to make up for losses at resolved institutions. Roughly 40 percent of these funds, or $30.0 billion, was working capital to finance receivership assets pending their eventual sale, and slightly more than 16 percent, or $12.2 billion, was working capital used for liquidity and high-cost fund replacement advances. The remaining $6.9 billion consisted largely of cash on hand which will be used for resolutions during September, as well as funds used for administrative expenses and interest on FFB borrowings.

As far as sources of funds are concerned, FFB borrowings through September 4 totaled $35.3 billion. The remaining $39.7 billion came from Treasury appropriations and Federal Home Loan Bank contributions which together totaled $20 billion; REFCORP borrowings, which totaled $18 billion; and the payment of interest and principal on RTC advances, which totaled $1.7 billion.

September is turning out to be a busy month for us. By the end of the month, we expect to have resolved approximately 50 additional institutions, including a number of very large ones. Funds usage will increase accordingly.

By the end of the quarter ending September 30, (or, the beginning of October if, as is possible, a number of resolutions roll over to the first week in October) total funds usage is projected to be $93 billion, with $36.0 billion to cover losses, $48.1 billion for working capital to finance assets, $8.0 billion for working capital for liquidity and high-cost fund replacement advances, and $0.9 billion for cash on hand, administrative expenses, and interest on FFB borrowings. FFB borrowings are expected to rise by $16.6 billion and dividends from RTC receiverships are expected to increase $1.4 billion over September 4 levels to cover these additional expenditures. (See Attachments 1 and 2.)

Thus, at the end of this quarter, we project our FFB borrowings will be about $51.9 billion. This is $8.7 billion less than we projected in July. One reason we have used less working capital than anticipated is that acquirers in a number of our largest transactions have opted for our extended put option. Under this option, the entire performing loan portfolio of a resolved thrift passes to an acquirer subject to the acquirer being able to put some of these assets back to the RTC over a period of up to 18 months.

Despite having used less working capital than anticipated, the material in Attachment 1 makes it clear that by the end of the present quarter the RTC will be close to the obligations limit. If all goes as planned, by the end of September, the RTC's obligations limit will be only $5.6 billion above the RTC's obligations.

Planned Expenditures for First Quarter FY 91

Without further funding, we estimate that the RTC will be able to resolve institutions with $15 billion to $20 billion in assets during the first quarter of FY 91 before bumping up against the

obligations limit. This compares with resolutions of institutions with $44 billion in assets last quarter and planned resolutions of institutions with approximately $50 billion in assets this quarter.

When the debt cap is reached, we estimate that the RTC would have used roughly $43 billion in loss funds. Thus, there would be roughly $7 billion in unused REFCORP borrowing authority. With the obligations limit in place, it would take many years of asset sales until these loss funds could be used.

The RTC is currently putting the finishing touches on its funding request from the Oversight Board for the first quarter of FY 91. The Oversight Board has asked us to prepare this request assuming that we have adequate funding, and to develop priorities for our funding needs in the event that adequate funds are not available.

Assuming for the moment that the obligations ceiling was not binding, we plan on resolving approximately 80 institutions with approximately $38 billion in assets out of conservatorship next quarter, as well as the nine institutions with approximately $9 billion in assets that are currently in the pilot project for the Accelerated Resolutions Program. Based on preliminary estimates, these resolutions would use up almost $14 billion of loss funds. New working capital borrowings for next quarter, assuming this level of resolutions, could be as high as $18 billion.

Given the fact that by the end of this quarter we expect to have used up $36 billion of loss funds, by the end of the first quarter of FY 91 the RTC would have used up virtually all the $50 billion provided it by FIRREA for covering losses. There will still be numerous institutions left to resolve at that point.

Additional Loss Funds

It is clear that the problems in the thrift industry are much more severe than was anticipated a little over a year ago when FIRREA was enacted. The number of troubled thrifts has turned out to be much greater than anticipated and the market for the assets of insolvent thrifts has turned out to be more difficult than anticipated.

The total amount of loss funds the RTC will eventually need to resolve troubled thrifts that come under its jurisdiction ultimately will depend on the number of institutions it is asked to handle, and the funds it recovers from the sale of assets. These in turn depend on macroeconomic factors, most notably the level of interest rates and the strength--or weakness--of real estate markets.

The Oversight Board has estimated that the RTC will need a total of approximately $90 billion to $130 billion of loss funds in present value terms. As we understand it, this range is based on an RTC caseload of roughly 700 to 1,030 institutions and varying loss rates on RTC assets. More recent data provided by the Office of Thrift Supervision would indicate a similar total caseload: from 700 to about 1,050 institutions.

We have always stated that we cannot tell the magnitude of the loss of the thrift industry without onsite examinations. The FDIC's Division of Supervision (DOS) has completed a preliminary review of the thrift industry and, although they have not been onsite at every thrift, their findings would corroborate an RTC caseload in the 700 to 1,050 range. DOS has also not found any evidence that $130 billion is too low an estimate of the loss funds the RTC may eventually need. We do believe it unlikely, however, that the total loss funds eventually used by the RTC will be less than $100 billion.

It is, however, important to note that we have been surprised in the past and that it is possible we will be surprised again. In particular, we simply do not have the data to estimate accurately the potential cost of shutting down in excess of 1,000 thrifts if the economy and real estate markets around the country enter into a prolonged slump.

The Committee's letter of invitation asks that we make "specific proposals and recommendations" on how to meet the RTC's financial needs. Unfortunately, when it comes to loss funds, there really are no alternatives. Additional loss funds will have to come from the American taxpayer.

How large an appropriation we need depends on how soon Congress wants to revisit this issue. We estimate that we would need a minimum of $50 billion of additional loss funds in order to resolve all the institutions that will come to the RTC, and as we have just discussed, there is a significant probability that we will need more than that. If we are to keep up the current pace of resolutions, we would need at least $30 billion to $40 billion of these funds during FY 91 and $15 billion to $20 billion through the end of April.

Additional Working Capital Funds

Aside from additional loss funds, it is clear that the RTC will need additional working capital if it is going to continue the current pace of resolutions. One temporary solution, that would provide us with enough working capital for the first quarter of FY 91, would be to use the $18.8 billion in additional borrowing authority we discussed earlier. This would provide us with enough working capital to use the $50 billion in loss funds provided to the RTC by FIRREA.

Another solution would be to raise the amount of loss funds available to the RTC and in doing so raise the obligations limit proportionately. Eventually, however, since the RTC can only borrow 85 cents for every dollar of working capital it needs, the obligations ceiling would once again become binding. There are two ways out of this dilemma. One is to allow the RTC to borrow 100 percent instead of 85 percent of the fair market value of its assets. The other is to provide the RTC with more loss funds than it is expected to use. These additional loss funds would provide the 15 percent capital cushion required by the RTC obligations ceiling.

The amount of working capital we will actually need depends on the number of institutions we are asked to handle, the amount of assets sold during conservatorship or passed to acquirers, and the speed at which assets are sold out of receivership. Ironically, the larger the RTC's losses, the lower the fair market value of its assets and the less working capital it needs.

Predicting the RTC's working capital needs on a quarterly basis is quite difficult since the amount of working capital needed at any point in time is in part dependent on the put back of assets to the RTC from previous transactions. The timing of these put backs is out of the RTC's control. Nevertheless, for the first quarter of FY 91 we expect to need as much as $18 billion in working capital, and approximately $50 billion to $60 billion over the entire fiscal year.

The Effect of Speeding Up Asset Sales and Repaying RTC Advances on Working Capital Needs

The prospect of RTC resolutions being severely curtailed by the obligations limit raises the obvious suggested solution: speed up receivership asset sales. This is what we intend to do. The RTC has announced the ambitious goal of $50 billion in sales and collections by December 31, 1990 from conservatorships and

receiverships that were under our control as of June 30, 1990. We have targeted $14 billion of these collections from receiverships and $36 billion from conservatorships and resolutions. Every dollar received will lower our working capital needs by a full dollar.

Nevertheless, it must be realized that the mathematics of the obligations ceiling are such that no realistic schedule of asset sales is going to speed up the resolution process to an acceptable pace once the obligations ceiling becomes binding. This is because each dollar of receivership assets sold frees up only 15 cents of loss funds for use in new resolutions. Moreover, it must be understood that while the RTC has some assets it is able to sell relatively quickly, others will take years to sell. Faster asset sales are thus not a realistic solution to maintaining the current pace of resolutions.

ATTACHMENT 1
RESOLUTION TRUST CORPORATION
SOURCES AND USES OF FUNDS
($ in billions)

	Inception thru 9/4/90[1]	Projected 9/30/90[2]
CASH BALANCE AT INCEPTION	0.0	0.0
SOURCES:		
Treasury Appropriations	18.8	18.8
FHLB Contribution	1.2	1.2
REFCORP Borrowings	18.0	18.0
FFB Borrowings	35.3	51.9
Repayments from Conservatorships	1.1	1.1
Repayments/Dividends from Receiverships	0.6	2.0
TOTAL SOURCES	75.0	93.0
USES:		
Resolutions[3]	55.9	84.1
Advances	12.2	8.0
Administrative Expenses (Net)	0.2	0.2
Corporate	0.1	0.1
Net Reimbursable	0.1	0.1
FFB Interest[4]	0.2	0.2
TOTAL USES	68.5	92.5
SOURCES MINUS USES	6.5	0.5
ENDING CASH BALANCE	6.5	0.5

[1]Includes cases resolved through August 31.

[2]Includes resolutions that may roll over to the first week of October.

[3]Include amounts originally advanced during conservatorship, as well as funding of asset puts.

[4]Interest at a quarterly rate of 2 percent of the prior quarter balance is rolled over at the beginning of the next quarter.

ATTACHMENT 2
RESOLUTION TRUST CORPORATION
MATCHING OF USES WITH DESIGNATED SOURCES
($ in billions)

INCEPTION THROUGH 9/4/90[1]

Use:		Source:	
Cover Losses	25.9	Loss Funds	25.9
Cash on Hand	6.5	Loss Funds	6.5
Receiver Assets	30.0	FFB	22.7
		Div/Repay	1.7
		Loss Funds	5.5
Advances	12.2	FFB	12.2
Adm. Exp. (net)			
Corporate	0.1	Loss Funds	0.1
Net Reimbursable	0.1	FFB	0.1
Interest on FFB	0.2	FFB	0.2
TOTAL USES	75.0	TOTAL SOURCES	75.0
		Loss Funds	38.0
		FFB	35.1
		Div/Repay	1.7

INCEPTION THROUGH 9/30/90[2]: PROJECTED

Use:		Source	
Cover Losses	36.0	Loss Funds	36.0
Cash on Hand	0.5	FFB	0.5
Receiver Assets	48.1	FFB	43.1
		Div/Repay	3.1
		Loss Funds	1.9
Advances	8.0	FFB	8.0
Adm. Exp. (net)			
Corporate	0.1	Loss Funds	0.1
Net Reimbursable	0.1	FFB	0.1
Interest on FFB	0.2	FFB	0.2
TOTAL USES	93.0	TOTAL SOURCES	93.0
		Loss Funds	38.0
		FFB	51.9
		Div/Repay	3.1

[1]Includes cases resolved through August 31.

[2]Includes resolutions that may roll over to the first week in October.

ATTACHMENT 3
RESOLUTION TRUST CORPORATION
STATUS WITH RESPECT TO OBLIGATION LIMITATION
($ in Billions)

	Projected 9/30/90
REFCORP and Treasury Funds Received	38.0
Outstanding Obligations	
FFB Borrowings	51.9
Other Liabilities, guarantees & contingencies[1]	0.2
(A) TOTAL REFCORP/TREASURY PROCEEDS & OUTSTANDING OBLIGATIONS	90.1
Cash	0.5
FMV of Advances x 85%[2]	5.9
FMV of Receiver Claims x 85%[3]	39.2
FMV of Other Assets x 85%[4]	0.1
(B) TOTAL ADJUSTED ASSETS	45.7
(C) "NET" OBLIGATIONS (A) - (B)	44.4
(D) EXCESS OF $50B OVER "NET" OBLIGATIONS: $50B - (C)	5.6

[1]Represents current liabilities, contractual obligations (leases), estimated costs from legal exposure, assumed approximately equal to June 30, 1990 balances. Cost of puts is included in resolution allowance for losses.

[2]For projection purposes, excludes accrued interest. Based only on cash provided for advances. No loss allowance is recorded.

[3]For projection purposes, excludes accrued interest. Based only on cash provided for resolution funding, net of estimated losses.

[4]Assumed to be net receivables from conservatorships and receiverships for administrative/operating expenses.

Mr. PICKLE. Thank you, Mr. Seidman.

Mr. Ryan, if you would go ahead and present your statement, we will proceed.

STATEMENT OF HON. T. TIMOTHY RYAN, DIRECTOR, OFFICE OF THRIFT SUPERVISION, U.S. DEPARTMENT OF THE TREASURY

Mr. RYAN. Thank you very much, Mr. Pickle.

I thank you for the opportunity to testify before the Ways and Means Committee on the condition of the private sector savings and loan industry.

The purpose of this hearing is to provide information on costs associated with resolving insolvent savings and loan institutions. These cost estimates have been developed and provided to the committee in previous testimony by the Resolution Trust Corporation Oversight Board. Thus my remarks will be limited to the current economic condition of the savings and loan industry.

There is not just one thrift industry, but several in existence today. The Office of Thrift Supervision has divided the private sector thrifts into four groups according to their financial prospects in order to be able to track trends and to better understand what is happening in the industry. I refer the committee to the attachments to my testimony.

As you can see, institutions in group I meet the minimum capital requirements and are profitable. Group II institutions generally meet or are expected to meet existing capital requirements. Institutions in group III are troubled, with poor earnings and insufficient capital, while those in group IV are probably RTC candidates.

The economic condition of the savings and loan industry is heavily influenced by prevailing macroeconomic trends. Deepening problems in the real estate industry, particularly commercial real estate, as well as continuing sluggishness in the housing sector of the economy, make the environment a difficult one for thrift institutions. The recent uptick in long-term interest rates may exacerbate the slowdown in the residential mortgage market.

The information I will be presenting to you this morning is based on March 31, 1990, financial information and current supervisory evaluations. The data has been adjusted for transfers to the RTC as of June 30, 1990, and released to the public on August 30, 1990.

These data are more current than the GAO testimony to be presented today. However, there is really no significant difference between our numbers and the GAO numbers.

The 2,453 private sector thrift institutions reported total assets of $1.049 trillion. Currently, 48 percent of these thrifts are in group I; 28 percent in group II; 14 percent in group III, and 10 percent in group IV. Over two-thirds of the industry's assets, or $714 billion, remain in groups I and II. The remaining $335 billion are divided relatively evenly between groups III and IV.

As to group I, group I institutions, as I said, are well-capitalized and profitable. There are 1,175 savings associations in group I, with assets totalling $363 billion. This represents 35 percent of industry assets. Group I thrifts' tangible capital accounts for 6.6 percent of assets. Thrifts in this category have approximately 74 percent of

their assets in residentially related mortgage products and report the lowest level of troubled assets.

Group II. Group II institutions meet or are expected to meet the new capital standards. There are 680 savings associations in group II, with assets totalling a little in excess of $350 billion. This represents 33 percent of the industry's assets. Group II thrifts are fairly well-capitalized, with tangible capital of 4 percent. However, thrifts in this category are not necessarily profitable, primarily because they have more troubled assets than group I.

Now, as to group III, OTS considers group III institutions to be troubled because of poor earnings or low capital or both. There are 352 savings associations in group III, with assets totally $169 billion. This represents 16 percent of the industry's assets. On average, group III thrifts have 2.2 percent tangible net worth. Residential-related mortgage products comprise about 62 percent of group III institution assets compared to a little in excess of 73 percent for group I and 61 percent for group II institutions.

The final group is group IV. These thrifts lack both the necessary capital and earning power to meet standards imposed by FIRREA. Consequently, there is a high probability that they will be transferred to the RTC and require Government assistance. There are 246 savings associations in group IV, with assets totalling $166 billion. This represents 16 percent of the industry's assets. Group IV thrifts have significant problems with goodwill, noncurrent assets and profitability. Only 55 percent of their assets are in residential-related mortgage products.

Furthermore, we have found the group IV classification to be a reliable basis for projecting transfers to the RTC. From April 1 to June 30 of this year, OTS transferred 52 savings associations to the RTC; 51 of those were from group IV, while only one was from group III. Through September 14, an additional 33 savings associations were transferred to the RTC, all of which were from group IV. Based upon a group IV estimate of 246 institutions that were potential RTC transfers, 213 savings associations remain as Government resolution candidates.

In conclusion, we are seeing some modest decline in the health of thrift institutions. Notwithstanding our progress in identifying those severely distressed institutions and isolating them from the healthy sector of the thrift industry, further deterioration in economic conditions, especially in the real estate markets, or volatility in the financial markets, may impair the prospects for the group III institutions.

Thank you, Mr. Chairman and the committee, for allowing me the opportunity to present economic information on the current condition of the savings and loan industry.

[The prepared statement follows:]

Office of Thrift Supervision
Department of the Treasury

Timothy Ryan
Director

1700 G Street, N.W., Washington, D.C. 20552 • (202) 906-6280

**Testimony of Timothy Ryan
before the Committee on Ways and Means
Concerning Additional Funding for the
Savings and Loan Bailout**

September 19, 1990

Mr. Chairman, thank you for the opportunity to testify before the Ways and Means Committee on the condition of the private sector savings and loan industry.

The purpose of this hearing is to provide information on costs associated with resolving insolvent savings and loan institutions. These cost estimates have been developed and provided to the Committee in previous testimony by the Trust Corporation Oversight Board. Thus my remarks will be limited to the current economic condition of the savings and loan industry.

There is not just one thrift industry, but several in existence today. The Office of Thrift Supervision has divided the private sector thrifts into four groups according to their financial prospects, in order to be able to track trends and to better understand what is happening in the industry. Institutions in Group I meet the minimum capital requirements and are profitable. Group II institutions generally meet or are expected to meet existing capital requirements. Institutions in Group III are troubled, with poor earnings and insufficient capital, while those in Group IV are probable RTC candidates.

The economic condition of the savings and loan industry is heavily influenced by prevailing macroeconomic trends. Deepening problems in the real estate industry, particularly commercial real estate, as well as continuing sluggishness in the housing sector of the economy, make the environment a difficult one for thrift institutions. The recent uptick in long-term interest rates may exacerbate the slowdown in the residential mortgage market.

THRIFT INDUSTRY CONDITION

The information I will be presenting to you this morning is based on March 31, 1990, financial information and current supervisory evaluations. The data has been adjusted for transfers to the RTC as of June 30, 1990.

The 2,453 private sector thrift institutions reported total assets of $1.049 trillion.

Currently, 48 percent of these thrifts are in Group I, 28 percent in Group II, 14 percent in Group III and 10 percent in Group IV. Over two thirds of the industry's assets, or $714 billion, remain in Group I and II thrifts. The remaining $335 billion are divided relatively evenly between Groups III and IV.

Group I

Group I institutions are well capitalized and profitable.

There are 1,175 savings associations in Group I, with assets totaling $363 billion. This represents 35 percent of industry assets. Group I thrifts tangible capital accounts for 6.6 percent of assets, against a minimum regulatory requirement of 1.5 percent. Thrifts in this category have approximately 74 percent of their assets in residential related mortgage products, and report the lowest level of troubled assets.

Group II

Group II institutions meet, or are expected to meet the new capital standards. There are 680 savings associations in Group II with assets totaling $351 billion. This represents 33 percent of industry assets. Group II thrifts are fairly well capitalized, with tangible capital of 4.0 percent, which exceeds the current minimum level of 1.5 percent. However, thrifts in this category are not necessarily profitable, primarily because they have more troubled assets than Group I.

Group III

We consider Group III institutions to be troubled because of poor earnings, or low capital, or both. There are 352 saving associations in Group III with assets totaling $169 billion. This represents 16 percent of industry assets. On average, Group III thrifts have 2.2 percent tangible net worth and meet current capital standards of 1.5 percent. Residential related mortgage products comprise 61.9 percent of Group III institution assets, compared to 73.7 percent for Group I and 60.7 percent for Group II institutions.

Group IV

Group IV thrifts lack both the necessary capital and earning power to meet standards imposed by FIRREA. Consequently, there is a high probability that they will be transferred to the RTC and require government assistance. There are 246 savings associations in Group IV, with assets totaling $166 billion. This represents 16 percent of industry assets. Group IV thrifts have significant problems with goodwill, non-current assets and profitability. Only 55 percent of their assets are in residential-related mortgage products.

Furthermore, we have found the Group IV classification to be a reliable basis for projecting transfers to the RTC. From April 1 to June 30 of this year, OTS transferred 52 savings associations to the RTC -- 51 of those were from Group IV while only one was from Group III. Through September 14, an additional 33 savings associations were transferred -- all of which were from Group IV. Based upon a Group IV estimate of 246 institutions that were potential RTC transfers, 213 savings associations remain as government resolution candidates.

CONCLUSION

In conclusion, we are seeing some modest decline in the health of thrift institutions. Notwithstanding our progress in identifying those severely distressed institutions and isolating them from the healthy sector of the thrift industry, further deterioration in economic conditions, especially in the real estate markets, or volatility in the financial markets, may impair the prospects for the Group III institutions.

Thank you, Mr. Chairman for allowing me the opportunity to present economic information on the current condition of the savings and loan industry.

ATTACHMENT

PRESENT CONDITION OF THE THRIFT INDUSTRY

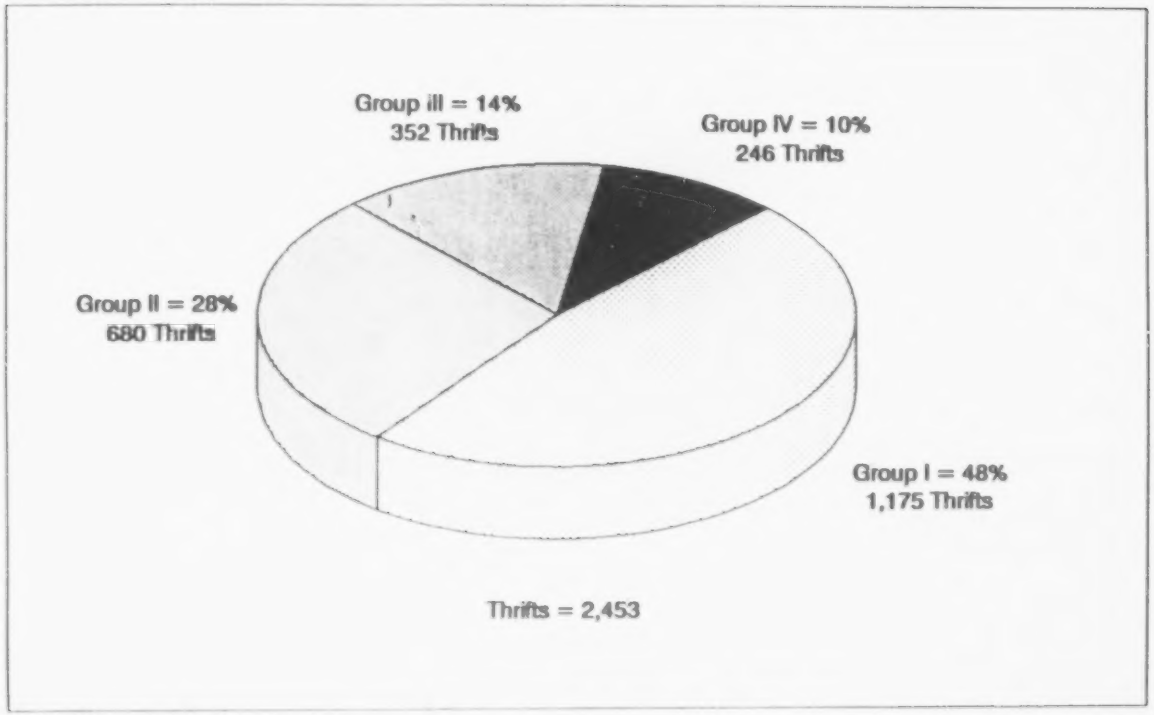
August 30, 1990

Office of Thrift Supervision

CLASSIFICATION OF PRIVATE SECTOR THRIFTS

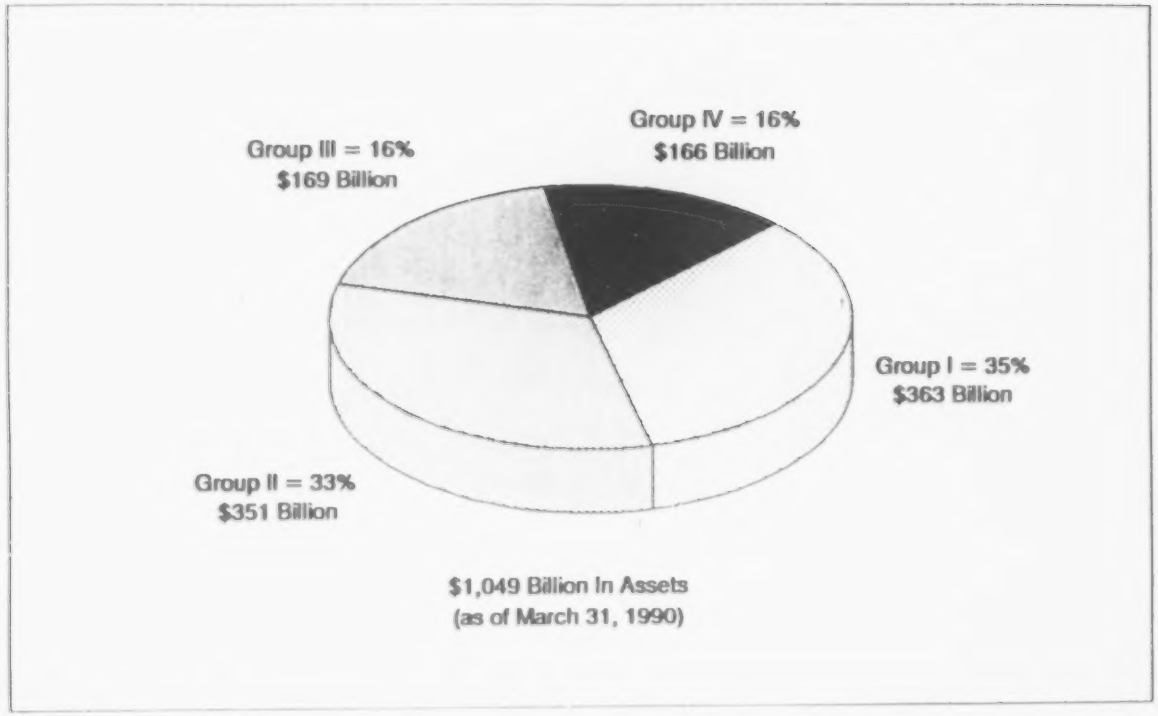
- GROUP I - Well capitalized and profitable
- GROUP II - Meet or expected to meet capital requirements
- GROUP III - Troubled with poor earnings and low capital
- GROUP IV - Expected transfers to the RTC

CONDITION OF PRIVATE SECTOR THRIFTS



Note: Data as of March 31, 1990.
2,505 Private Sector Thrifts minus 52 Conservatorships through June 30, 1990.
Office of Thrift Supervision

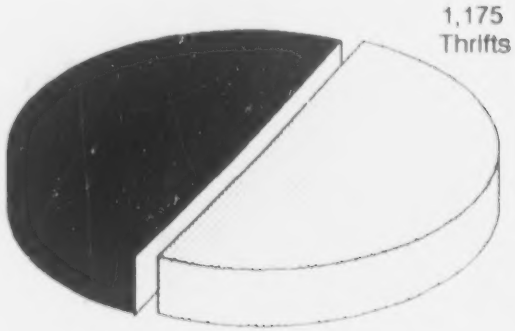
ASSETS OF PRIVATE SECTOR THRIFTS



Note: Data as of March 31, 1990.
2,505 Private Sector Thrifts minus 52 Conservatorships through June 30, 1990.
Office of Thrift Supervision

GROUP I THRIFTS ARE WELL CAPITALIZED AND PROFITABLE

GROUP I



Total Number of Thrifts
2,453

Income (Trailing 4 qtrs $ Billions)	2.3
Tangible Net Worth ($ Billions)	23.7
TNW/Assets (Percent)	
Average	6.6%
Median	7.8%
Assets ($ Billions)	363
Percent of Industry Assets	35%

Note: Data as of March 31, 1990; tangible net worth is on a consolidated basis.
2,505 Private Sector Thrifts minus 52 Conservatorships through June 30, 1990.
Office of Thrift Supervision

BALANCE SHEET INFORMATION

GROUP I THRIFTS = 1,175

Assets (Percent of Assets)	
1-4 Family Mortgages	55.8
Mortgage Backed Securities	11.7
Multifamily Mortgage	6.2
Non-residential Mortgages	5.3
Other	21.0

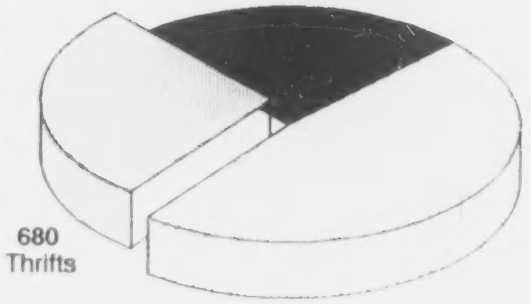
Liabilities (Percent of Liabilities)	
Deposits < $100,000	72.8
Deposits > $100,000	9.3
Advances from FHLB	7.0
Other	10.9

Other Key Statistics (Percent of Assets)	
Goodwill	0.7
Non-current Assets	0.8
REO	0.5

Note: Data as of March 31, 1990.
2,505 Private Sector Thrifts minus 52 Conservatorships through June 30, 1990.
Office of Thrift Supervision

GROUP II THRIFTS MEET OR ARE EXPECTED TO MEET CAPITAL REQUIREMENTS

GROUP II



Total Number of Thrifts
2,453

Income (Trailing 4 qtrs $ Billions)	0.6
Tangible Net Worth ($ Billions)	13.3
TNW/Assets (Percent)	
Average	4.0%
Median	5.1%
Assets ($ Billions)	351
Percent of Industry Assets	33%

Note: Data as of March 31, 1990; tangible net worth is on a consolidated basis.
2,505 Private Sector Thrifts minus 52 Conservatorships through June 30, 1990.
Office of Thrift Supervision

BALANCE SHEET INFORMATION

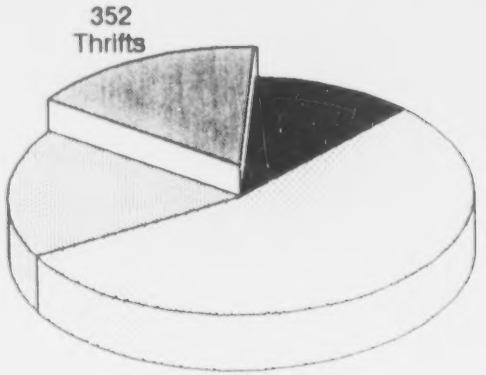
GROUP II THRIFTS = 680

Assets (Percent of Assets)		Liabilities (Percent of Liabilities)		Other Key Statistics (Percent of Assets)	
1-4 Family Mortgages	40.3	Deposits < $100,000	67.2	Goodwill	1.0
Mortgage Backed Securities	13.8	Deposits > $100,000	10.5	Non-current Assets	1.0
Multifamily Mortgage	6.6	Advances from FHLB	10.8	REO	2.7
Non-residential Mortgages	7.6	Other	11.5		
Other	31.7				

Note: Data as of March 31, 1990.
2,505 Private Sector Thrifts minus 52 Conservatorships through June 30, 1990.
Office of Thrift Supervision

GROUP III THRIFTS ARE TROUBLED WITH POOR EARNINGS AND LOW CAPITAL

GROUP III



Total Number of Thrifts
2,453

Income (Trailing 4 qtrs $ Billions)	-0.8
Tangible Net Worth ($ Billions)	3.4
TNW/Assets (Percent)	
Average	2.2%
Median	2.9%
Assets ($ Billions)	169
Percent of Industry Assets	16%

Note: Data as of March 31, 1990; tangible net worth is on a consolidated basis.
2,505 Private Sector Thrifts minus 52 Conservatorships through June 30, 1990.
Office of Thrift Supervision

BALANCE SHEET INFORMATION
GROUP III THRIFTS = 352

Assets (Percent of Assets)	
1-4 Family Mortgages	40.3
Mortgage Backed Securities	14.5
Multifamily Mortgage	7.1
Non-residential Mortgages	10.1
Other	28.0

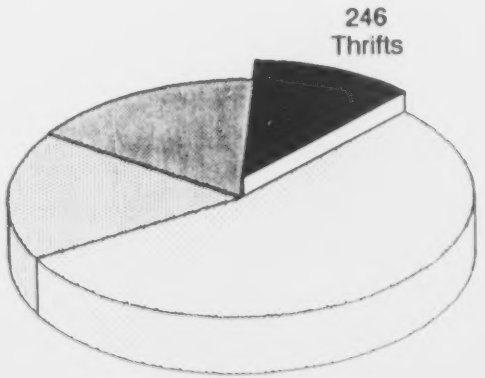
Liabilities (Percent of Liabilities)	
Deposits < $100,000	69.8
Deposits > $100,000	8.9
Advances from FHLB	9.0
Other	12.3

Other Key Statistics (Percent of Assets)	
Goodwill	1.7
Non-current Assets	1.8
REO	1.5

Note: Data as of March 31, 1990.
2,505 Private Sector Thrifts minus 52 Conservatorships through June 30, 1990.
Office of Thrift Supervision

GROUP IV THRIFTS ARE EXPECTED TRANSFERS TO THE RTC

GROUP IV



Income (Trailing 4 qtrs $ Billions)	-3.3
Tangible Net Worth ($ Billions)	-2.2
TNW/Assets (Percent)	
Average	-1.2%
Median	0.2%
Assets ($ Billions)	166
Percent of Industry Assets	16%

Note: Data as of March 31, 1990; tangible net worth is on a consolidated basis.
2,505 Private Sector Thrifts minus 52 Conservatorships through June 30, 1990.
Office of Thrift Supervision

BALANCE SHEET INFORMATION

GROUP IV THRIFTS = 246

Assets (Percent of Assets)	
1-4 Family Mortgages	31.5
Mortgage Backed Securities	16.1
Multifamily Mortgage	7.4
Non-residential Mortgages	9.3
Other	35.7

Liabilities (Percent of Liabilities)	
Deposits < $100,000	64.7
Deposits > $100,000	6.5
Advances from FHLB	13.1
Other	15.7

Other Key Statistics (Percent of Assets)	
Goodwill	2.0
Non-current Assets	2.4
REO	4.3

Note: Data as of March 31, 1990.
2,505 Private Sector Thrifts minus 52 Conservatorships through June 30, 1990.
Office of Thrift Supervision

GROUP IV INSTITUTIONS ARE LOCATED IN CERTAIN KEY STATES

(246 Group IV Institutions)

Note: Puerto Rico has two Group IV institutions. Data as of March 31, 1990.
2,505 Private Sector Thrifts minus 52 Conservatorships through June 30, 1990.
Office of Thrift Supervision

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SUMMARY: VARIETY OF CONDITIONS AMONG SAVINGS INSTITUTIONS

	Number of Institutions	Assets ($ Billions)	Percent of Private Sector Industry Assets	Net Income for First Quarter ($ Billions)	Average TNW (% Of Assets)
GROUP I	1,175	$363	35%	$0.6	6.6%
GROUP II	680	$351	33%	$0.2	4.0%
GROUP III	352	$169	16%	$-0.3	2.2%
GROUP IV	246	$166	16%	$-0.7	-1.2%

Note: Data as of March 31, 1990.
2,505 Private Sector Thrifts minus 52 Conservatorships through June 30, 1990.
Office of Thrift Supervision

Mr. PICKLE. Thank you, Mr. Ryan and Mr. Seidman.

I want to first ask some questions on behalf of the chairman of the committee, who has been called to an important meeting, and then we'll proceed with questioning by the members.

Mr. Seidman, how does the RTC anticipate using additional funding or borrowing authority? For example, how much do you anticipate would cover losses, and how much would be used as working capital? As I understand your testimony, you indicated that you might need as much as $50 billion for losses.

Mr. SEIDMAN. That's correct.

Mr. PICKLE. For what period of time?

Mr. SEIDMAN. The $50 billion is in addition to the original $50 billion, and that is the minimum that we think we need to do the entire job for the RTC.

Mr. PICKLE. That would be, then, $50 billion and another $50 billion for losses.

Mr. SEIDMAN. Yes, sir, that's right.

Mr. PICKLE. Now, for working capital, you want another $50 to $60 billion?

Mr. SEIDMAN. That's right.

Mr. PICKLE. For what period of time?

Mr. SEIDMAN. For the next year.

Mr. PICKLE. For the full year, all right.

Mr. SEIDMAN. The next fiscal year.

Mr. PICKLE. All right. Now, how many years do you anticipate that working capital financing must be outstanding prior to repayment of significant amounts to the Government?

Mr. SEIDMAN. That depends, of course, Mr. Chairman, on how fast we can sell these assets, but significant amounts will be out over the next 3 or 4 years at least.

Mr. PICKLE. Three or 4 years.

Mr. SEIDMAN. Yes.

Mr. PICKLE. All right. When will the fiscal 1990 working capital be paid back?

Mr. SEIDMAN. Again, that is very difficult to estimate because it depends on how fast we can sell assets. But substantially we are planning to pay back most of the working capital over the remaining life of the RTC, which is about 5½ years.

Mr. PICKLE. As I remember—well, I'll go ahead with the questions, but as I remember, you had testified earlier that if we had the working capital, there might be a delay of 1 or 2 years, and then your money would start coming much more quickly.

Mr. SEIDMAN. Well, it'll start coming back in, but I thought you meant getting the whole amount of working capital back.

Mr. PICKLE. You're saying now it will take 4 or 5 years; is that correct?

Mr. SEIDMAN. Yes.

Mr. PICKLE. All right. What is your opinion, Mr. Seidman, regarding the solvency of the bank insurance fund? What potential liability should Congress be aware of in that fund? Specifically, will the bill passed by the House on Monday, which provides for additional insurance premiums, be sufficient to solve the potential problems with the fund?

Mr. SEIDMAN. At this time, we believe that the fund is solvent and will stay solvent, based on current economic conditions—that is, based on the failures that we can see in the system now. Whether or not it will have resources for much worse economic conditions would be a different question.

Mr. PICKLE. Well, Mr. Seidman, are you saying that the fund is solvent now, and with the measure passed Monday that will give you an additional cushion and that we do not have to take any additional steps—Congress does not have to take any additional steps now on the fund?

Mr. SEIDMAN. Oh, I think Congress needs to take some steps because you can't cure the fund's problems simply by putting money into it. We have to cure the cost of deposit insurance, which is out of control and must be changed; otherwise we will simply run into the kinds of problems that we have seen in other areas.

Mr. PICKLE. All right. I want to ask both of you gentlemen a question that the chairman asked me to pose to you.

How sensitive are your estimates of the total cost of the savings and loan assistance program to changes in economic factors? For example, to what extent could an economic downturn in the near future affect the cost of the bailout next year, and how could such a downturn increase costs over the long run?

Would either of you venture an estimate on that?

Mr. SEIDMAN. I can only tell you that an economic downturn will increase the cost because presumably that will make real estate markets even weaker, and it will also, I think Mr. Ryan will tell you, mean there will be more institutions to be handled.

So there is no question that the estimates we have given you will be very materially affected by major changes in the economy—major longer term changes in the economy.

Mr. PICKLE. Well, I assume you are saying that if there is an economic downturn that would have a very serious effect on our overall financing to the RTC?

Mr. SEIDMAN. That would certainly increase the costs, that is correct.

Mr. PICKLE. Mr. Ryan.

Mr. RYAN. A significant downturn in the economy would increase the number of institutions that are probable candidates for resolution at the RTC.

Mr. PICKLE. Do either of you dare to make an estimate of whether we will have an economic downturn?

Mr. SEIDMAN. I have not made any estimate of that, although from what we foresee—and we look at the economy quite carefully—the real economy seems to be doing reasonably well. It is obviously in a slowdown; we don't see any major downturn, and we think the major threat, if there is one, is in the financial economy.

Mr. PICKLE. Another question I want to ask you. On August 20, Chairman Rostenkowski received a letter from Secretary Brady, estimating a need for $10 billion in loss funds through February 1991 and $30 to $50 billion through fiscal 1990. Now, later today the General Accounting Office will recommend that the RTC be given additional borrowing authority of $50 billion for the next fiscal year.

What are your views on the best methods for providing additional financing from RTC?

Mr. SEIDMAN. Mr. Chairman, as I said in my testimony, I think that we need to borrow directly from the Treasury at the lowest rates, and I think that the limitations on borrowing for working capital we now have, which provide that we can only borrow 85 percent of the value of the assets we have, ought to be removed, and we ought to be allowed to buy 100 percent since it is a Government obligation anyway, and that will increase and simplify the working capital problem-increase our availability and simplify the calculation.

Mr. PICKLE. Mr. Ryan, in testimony this morning, Mr. Seidman states that the Treasury Department indicated that it would not consider raising the RTC obligation limits without first advising Congress. I anticipate that the Ways and Means Committee would be consulted by the Treasury Department prior to any action taken on this issue, specifically, the chairman of this committee. Is that your understanding?

Mr. RYAN. I have no understanding one way or the other, Mr. Pickle.

Mr. PICKLE. Well, I would say to you that we should have an understanding, and the chairman wants it understood clearly that he wants to be advised as soon as anybody else in the Government.

Mr. RYAN. I will be glad to talk with the Treasury about that issue, Mr. Pickle.

Mr. PICKLE. All right.

The chairman is going to yield now to Mr. Archer for any questions.

Mr. ARCHER. Thank you, Mr. Chairman.

Following on your format, there are a couple of generic questions that I would like to ask on behalf of the committee before I commence my personal questions.

Continuing on from what the chairman just asked you, what percent of the working capital do you anticipate will result in the losses?

Mr. SEIDMAN. I'm not sure I know how to answer that. What I have said is that our losses are running around 20 percent of assets, and of course we have to finance 100 percent of assets, so if those two numbers are helpful in answering that question——

Mr. ARCHER. So you would estimate roughly around 20 percent will end up in the loss column?

Mr. SEIDMAN. Yes. In other words, we have to finance all the assets——

Mr. ARCHER. I understand.

Mr. SEIDMAN [continuing]. And the loss on assets is about 20 percent. So it is probably about four times the amount.

Mr. ARCHER. All right. What percent of the Government dollars that are infused into the solution of this problem will be represented by operating expenses or administrative costs?

Mr. SEIDMAN. I don't know. Does anybody have the percent? [Conferring with staff.] Under 1 percent.

Mr. ARCHER. Under 1 percent. Do you believe that you have access to adequate qualified staff with the necessary expertise to

implement your policy decisions, and if not is there anything that Congress can do to improve your ability to hire qualified people?

Mr. SEIDMAN. I don't think we yet have all the people we need to do this job. We have been hiring rapidly. We have gone from none to approximately 5,000 over 1 year. We are hiring most of these people as temporary employees, and we have been given reasonable flexibility by OPM to do that. I think the job is principally ours to do the hiring and get them in place. I don't think we are under any real constraints.

We do have the usual problems of having to post jobs and so forth, which slows the process some.

Mr. ARCHER. Well, has the Congress, though, put any restrictions on your ability to hire the best people? I am thinking, for example, in our State of Texas, the people who are most knowledgeable about real estate, even the ones who have been totally honorable, have suffered losses because of the massive decline in the real estate market prices, and many of those people who have had some failure to pay on their loans, through no fault of their own, as I understand it are being denied by you under the law from being made a part of trying to solve this problem. These are some of the people who have the greatest knowledge of Texas real estate.

Mr. SEIDMAN. Well, that is certainly true, Mr. Archer. We cannot hire people who have caused the fund substantial losses under the law, and I think that is a judgment call as to whether or not we want to hire people to deal with the problem who have in fact been part of the cause.

Mr. ARCHER. Can you explain for the committee and I think the public, the difference between comments that have been attributed to you that these losses would be as much as $500 billion or more, and your testimony today that they would be at the upper end of the range of $90 to $130 billion?

Mr. SEIDMAN. Well, I can do that. It will take me a few minutes, if you want to listen to it again——.

Mr. ARCHER. Well, maybe it ought not be on my time, because the yellow light is flashing there, so if you would submit that for the record——

Mr. SEIDMAN. I can, but I can just say up front that most of the larger estimates that you have heard are based on not the up-front cost but the cost with the interest to finance paying it.

Mr. ARCHER. OK.

Mr. SEIDMAN. So that when you hear $500 and $600 billion and those numbers, those are up-front costs plus interest——

Mr. ARCHER. So the key difference is that your $90 to $130 billion is in present value dollars, basically.

Mr. SEIDMAN. The $90 to $130 billion is in current dollars, if you had the money today.

Mr. ARCHER. Yes, right.

Now, let me ask you a couple of questions that have come up earlier in the minds of a lot of my colleagues. Have any of the dollars that the Government has provided gone to either the managers or the investors of the failed savings and loans?

Mr. SEIDMAN. Well, none have gone to the investors, and the managers who have been paid by us are not the managers who caused the problems to every extent that we can determine.

Mr. ARCHER. That's why I said of the failed savings and loan during the operation that created——

Mr. SEIDMAN. We have not consciously paid either the shareholders or any of the managers who caused the problems.

Mr. ARCHER. So basically, these dollars have gone to fulfill the contract of insurance to the depositors.

Mr. SEIDMAN. That is correct.

Mr. ARCHER. Do you have any breakdown of the depositors who benefitted from the infusion of these taxpayer dollars?

Mr. SEIDMAN. I don't.

Mr. ARCHER. Do you know what percent of those were brokered funds?

Mr. SEIDMAN. Well, we could get you that number. I don't have it offhand. I doubt if anybody has that——

Mr. ARCHER. Is it possible to obtain a breakdown by region of the country as to the location of the depositors who benefitted from the infusion of the taxpayer dollars?

Mr. SEIDMAN. There is a substantial amount of brokered funds, but it would be less than 50 percent.

Mr. ARCHER. If you could—without burdening your administrative costs additionally—provide for the record for us information as to that kind of breakdown——

Mr. SEIDMAN. We can give you an estimate.

Mr. ARCHER. I think it would be very good.

[The following was subsequently received:]

In July of this year, we selected 15 institutions in conservatorship and identified by State the total number of accounts and the actual dollar amount on deposit in these institutions. This chart does not indicate which accounts contained uninsured funds. It merely identifies the number of accounts and the dollar amount on deposit in each of these institutions from all 50 States, Puerto Rico and abroad. A copy of this chart is attached for your review.

Since this report was compiled, four institutions have been resolved. For institutions that have been resolved, we are able to determine the approximate dollar amount of unresolved funds as of the date of resolution. The name of the institution and the amount of uninsured funds is listed below:

	Million
Merabank, FSB	$2.7
Western Empire FS&LA	0
Home Owners SB, FSB	1.7
City Savings Bank, FSB (Branch Sale)	4.3

We would add that on the date of takeover each of the institutions listed above, except Western Empire FS&LA, had gross assets that exceeded $4 billion. Western Empire's gross assets on the date of takeover were in excess of $400 million.

SUMMARY DEPOSITOR TOTALS BY STATE
SELECTED RTC CONSERVATORSHIPS
July 31, 1990 data

DEPOSIT LOCATION	INSTITUTION NAME, STATE $ BALANCE	# ACCOUNTS	INSTITUTION NAME, STATE $ BALANCE	# ACCOUNTS	INSTITUTION NAME, STATE $ BALANCE	# ACCOUNTS
	PIMA FEDERAL, AZ		SOUTHWEST SAVINGS, AZ		MERABANK FEDERAL, AZ	
ALABAMA	784,827	70	701,029	22	9,847,521	238
ALASKA	515,337	30	1,276,011	93	1,030,027	150
ARIZONA	1,329,143,826	135,492	1,306,549,430	146,376	2,303,966,628	246,773
ARKANSAS	2,592,081	114	4,148,606	74	11,383,539	309
CALIFORNIA	13,471,320	1,475	27,216,133	1,717	93,153,780	4,762
COLORADO	7,686,555	569	8,915,928	503	26,160,172	1,131
CONNECTICUT	804,742	59	1,485,527	58	13,716,006	285
DELAWARE	276,889	13	259,458	7	1,501,977	45
DISTRICT OF COLUMBIA	789,738	21	1,791,593	29	3,161,753	87
FLORIDA	5,217,965	267	10,758,279	310	79,057,917	1,997
GEORGIA	765,930	65	2,876,760	60	17,693,353	440
HAWAII	621,949	40	932,517	39	3,077,406	116
IDAHO	1,270,383	93	958,934	67	3,852,008	251
ILLINOIS	13,646,331	577	16,725,854	660	80,609,503	2,393
INDIANA	3,423,633	152	5,346,112	151	22,090,521	625
IOWA	9,873,573	269	3,445,820	227	14,968,110	720
KANSAS	2,360,183	178	3,069,576	116	15,656,656	538
KENTUCKY			794,612	47	4,551,798	158
LOUISIANA	1,026,237	43	5,535,378	68	11,232,003	261
MAINE	272,919	35	345,293	24	983,391	48
MARYLAND	804,885	68	1,631,782	60	7,178,494	265
MASSACHUSETTS	628,687	63	1,218,869	91	4,236,711	219
MICHIGAN	5,219,946	361	4,666,074	318	26,186,844	1,261
MINNESOTA	7,484,183	529	9,703,825	563	44,063,052	1,576
MISSISSIPPI	69,351	11	1,624,851	31	3,120,860	90
MISSOURI	3,214,491	175	4,865,471	204	22,997,906	683
MONTANA	1,825,299	125	1,740,646	104	6,560,668	285
NEBRASKA	606,140	76	1,900,668	109	5,234,908	301
NEVADA	4,925,586	263	5,378,240	257	15,291,751	737
NEW HAMPSHIRE	209,003	30	209,742	21	868,970	67
NEW JERSEY	2,195,936	138	5,501,235	184	29,881,475	1,013
NEW MEXICO	4,161,392	357	2,629,526	181	23,397,455	1,661
NEW YORK	5,817,612	456	9,218,115	409	149,836,921	1,979
NORTH CAROLINA	1,275,763	81	1,680,338	56	4,545,983	236
NORTH DAKOTA	1,700,450	66	2,856,641	74	6,638,818	305
OHIO	3,570,261	283	5,176,206	250	23,437,531	942
OKLAHOMA	2,787,197	155	10,195,043	145	31,077,376	706
OREGON	2,621,219	199	3,196,107	204	11,736,066	581
PENNSYLVANIA	4,267,461	178	6,654,571	190	35,489,737	1,289
PUERTO RICO	56	1	1,730	3	404,787	20
RHODE ISLAND	105,518	21	121,335	12	1,971,359	50
SOUTH CAROLINA	354,777	21	323,051	13	3,620,922	141
SOUTH DAKOTA	1,276,837	90	1,071,934	67	4,246,553	250
TENNESSEE	1,015,289	65	3,009,180	58	11,607,294	322
TEXAS	11,494,181	534	37,727,495	674	375,581,792	36,224
UTAH	8,530,493	387	1,825,237	106	7,466,404	273
VERMONT	265,086	44	202,163	24	400,974	31
VIRGINIA	1,384,908	127	3,172,095	119	9,235,922	322
WASHINGTON	3,849,022	294	5,229,414	298	20,492,256	996
WEST VIRGINIA	159,269	26	926,066	26	2,843,975	79
WISCONSIN	3,076,436	316	4,853,231	276	16,856,270	780
WYOMING	1,985,005	93			3,656,394	199
OUT OF COUNTRY	299,769	15	1,918,709	274	249,579,282	3,224
TOTAL	1,482,481,668	144,942	1,545,755,187	156,149	3,825,225,789	320,414

DEPOSIT LOCATION	INSTITUTION NAME, STATE $ BALANCE	# ACCOUNTS	INSTITUTION NAME, STATE $ BALANCE	# ACCOUNTS	INSTITUTION NAME, STATE $ BALANCE	# ACCOUNTS
	SANTA BARBARA FEDERAL, CA		WESTERN EMPIRE FEDERAL, CA		IMPERIAL SAVINGS, CA	
ALABAMA	2,231,777	26	1,300,699	15	1,934,965	46
ALASKA	892,882	28	512,822	6	1,518,804	64
ARIZONA	9,940,768	263	798,016	17	9,284,102	485
ARKANSAS	5,443,983	76	1,570,000	16	3,229,327	80
CALIFORNIA	1,268,093,815	136,561	87,930,557	4,810	4,212,409,868	302,788
COLORADO	3,913,599	94	794,984	10	5,284,356	201
CONNECTICUT	3,064,581	45	690,877	7	1,518,396	39
DELAWARE	198,000	2	99,000	1	84,670	8
DISTRICT OF COLUMBIA	11,092,644	121	988,985	10	2,499,973	47
FLORIDA	9,830,983	176	2,788,708	35	10,132,615	285
GEORGIA	4,162,282	61	1,568,694	16	5,238,497	86
HAWAII	2,104,034	50	301,572	5	2,067,641	126
IDAHO	1,691,516	65	200,393	4	1,211,785	74
ILLINOIS	22,806,004	298	6,274,990	68	15,212,693	280
INDIANA	6,755,348	85	2,228,374	24	5,240,090	89
IOWA	2,010,622	30	1,165,000	14	3,630,275	71
KANSAS	4,952,115	51	1,089,000	11	5,016,299	104
KENTUCKY	1,198,277	16	591,671	6	1,902,633	38
LOUISIANA	4,382,762	60	2,279,770	22	3,020,606	67
MAINE	1,055,533	15	198,000	2	1,149,630	22
MARYLAND	2,298,257	39	492,008	8	1,930,838	83
MASSACHUSETTS	641,184	36	585,231	9	3,274,964	56
MICHIGAN	3,412,596	86	2,264,020	24	4,447,279	166
MINNESOTA	4,145,658	67	4,432,875	52	9,018,788	148
MISSISSIPPI	1,952,651	23			1,102,607	14
MISSOURI	9,345,591	100	2,562,616	27	7,031,068	167
MONTANA	969,979	21	594,000	6	1,184,427	76
NEBRASKA	1,063,640	17	492,000	7	0	0
NEVADA	5,431,168	131	992,920	10	2,762,769	146
NEW HAMPSHIRE	102,474	3	99,000	1	1,412	17
NEW JERSEY	5,036,665	74	1,772,000	16	4,016,623	134
NEW MEXICO	4,543,081	61	103,925	3	2,017,155	80
NEW YORK	52,808,973	247	2,562,518	31	17,012,656	332
NORTH CAROLINA	828,249	15	198,000	2	1,111,995	73
NORTH DAKOTA	2,070,940	24	99,000	1	1,028	20
OHIO	4,132,972	80	1,722,413	17	4,110,018	127
OKLAHOMA	6,587,725	104	2,643,990	27	1,592	171
OREGON	5,941,119	234	1,016,867	14	1,498	490
PENNSYLVANIA	9,058,426	119	3,442,990	34	4,307	161
PUERTO RICO	27,154	8			1,533	1
RHODE ISLAND	166,726	5			15,267	7
SOUTH CAROLINA	396,954	17	7,195	1	5,568	20
SOUTH DAKOTA	831,803	12	99,000	1	80,267	10
TENNESSEE	3,056,310	40	1,188,587	19	2,948	52
TEXAS	29,376,027	341	11,641,643	140	4,415	1585
UTAH	2,699,471	54	845,336	10	3,010	123
VERMONT					3,334	3
VIRGINIA	2,118,294	47	1,887,205	20	1,5,804	132
WASHINGTON	3,218,249	104	2,055,171	41	6,641	424
WEST VIRGINIA	1,233,070	12			80,580	16
WISCONSIN	529,649	15	888,893	10	4,587	92
WYOMING	1,379,932	32	891,000	9	80,172	14
OUT OF COUNTRY	1,247,891	170	4,419	4	149,1 1,492	11,672
TOTAL	1,542,563,109	140,486	158,102,867	5,621	4,5 5,354	319,930

DEPOSIT LOCATION	INSTITUTION NAME, STATE $ BALANCE	# ACCOUNTS	INSTITUTION NAME, STATE $ BALANCE	# ACCOUNTS	INSTITUTION NAME, STATE $ BALANCE	# ACCOUNTS	$ BALANCE	% TO TOTAL	# ACCOUNTS	% TO TOTAL
	SANDIA FEDERAL, NM		ATLANTIC FEDERAL, PA		SOUTHWEST FEDERAL, TX		TOTAL SELECTED INSTITUTIONS			
ALABAMA	2,596,704	41	789,925	86	6,662,000	135	37,871,233	0.117	1,070	0.036
ALASKA	1,166,062	23	219,664	46	440,000	28	10,856,083	0.036	649	0.022
ARIZONA	4,376,349	290	528,177	114	4,584,000	173	4,986,461,867	15.433	531,343	17.964
ARKANSAS	7,702,484	98	87,726	10	16,781,000	296	64,461,212	0.200	1,756	0.059
CALIFORNIA	32,163,824	619	7,531,786	534	29,915,000	745	6,923,977,261	21.429	554,493	18.747
COLORADO	9,363,086	430	379,135	35	8,825,000	247	88,545,595	0.274	4,387	0.148
CONNECTICUT	2,300,782	25	112,187	33	2,867,000	59	42,519,885	0.132	1,987	0.067
DELAWARE	198,000	2	606,852	130	775,000	17	6,697,246	0.021	520	0.018
DISTRICT OF COLUMBIA	4,120,189	46	80,838	19	6,844,000	93	49,998,491	0.155	794	0.027
FLORIDA	22,368,342	288	4,752,295	439	48,107,000	694	1,975,693,149	6.115	189,276	6.399
GEORGIA	13,628,364	151	376,091	71	9,599,000	220	80,176,709	0.248	2,509	0.085
HAWAII	1,260,215	45	123,711	13	1,833,000	46	16,821,024	0.052	703	0.024
IDAHO	1,682,265	94	37,467	17	1,394,000	32	15,060,667	0.047	893	0.030
ILLINOIS	26,829,153	310	1,350,769	83	49,617,000	693	296,469,307	0.918	8,416	0.285
INDIANA	9,068,102	111	511,244	31	13,716,000	208	92,645,006	0.287	2,506	0.085
IOWA	8,059,816	98	114,915	9	6,847,000	114	61,174,995	0.189	2,271	0.077
KANSAS	5,861,258	90	94,174	10	11,369,000	222	1,737,206,539	5.376	91,344	3.088
KENTUCKY	2,572,975	28	422,247	39	7,496,000	92	27,792,996	0.086	869	0.029
LOUISIANA	10,863,867	119	151,919	87	30,947,000	502	80,674,280	0.250	1,675	0.057
MAINE	790,000	8	43,237	12	655,000	12	259,469,769	0.803	37,814	1.278
MARYLAND	3,253,914	33	1,141,729	188	4,063,000	92	33,696,105	0.104	1,897	0.064
MASSACHUSETTS	1,820,150	31	123,506	34	2,252,000	66	1,019,870,285	3.156	116,398	3.935
MICHIGAN	5,527,017	93	336,610	53	13,007,000	242	91,824,395	0.284	4,278	0.145
MINNESOTA	752,944	95	396,099	47	16,184,000	225	232,057,969	0.718	4,913	0.166
MISSISSIPPI	1,886,346	28	126,252	10	4,663,000	93	17,159,570	0.053	415	0.014
MISSOURI	5,527,239	97	304,572	42	13,407,000	242	276,186,753	0.855	27,288	0.923
MONTANA	816,249	20	178,033	12	2,744,000	44	19,760,881	0.061	825	0.028
NEBRASKA	1,406,131	30	94,218	4	4,309,000	85	21,233,128	0.066	1,113	0.038
NEVADA	2,218,631	91	918,917	121	2,982,000	74	48,949,816	0.151	2,548	0.086
NEW HAMPSHIRE	397,448	6	912,523	115	403,000	16	10,561,272	0.033	1,493	0.050
NEW JERSEY	10,924,958	125	19,482,472	2,456	17,701,000	261	3,799,209,043	11.758	621,209	21.002
NEW MEXICO	659,431,982	45,620	394,609	54	14,607,000	468	1,046,197,795	3.238	141,393	4.780
NEW YORK	14,320,531	251	3,473,754	268	74,447,000	1,168	1,768,203,051	5.472	15,201	0.514
NORTH CAROLINA	1,675,759	33	1,994,143	268	3,808,000	97	29,375,495	0.091	2,294	0.078
NORTH DAKOTA	2,612,356	36	20,887	18	2,611,000	35	24,112,861	0.075	719	0.024
OHIO	9,900,797	120	2,167,875	256	13,362,000	218	152,733,749	0.473	4,476	0.151
OKLAHOMA	20,374,222	254	471,837	57	38,766,000	816	145,579,551	0.451	3,581	0.121
OREGON	2,557,334	55	389,367	240	2,744,000	60	48,201,753	0.149	2,590	0.088
PENNSYLVANIA	16,673,443	189	1,945,793,341	262,097	20,401,000	358	2,123,967,457	6.573	273,346	9.242
PUERTO RICO	100,000	1			664,000	7	2,604,980	0.008	271	0.009
RHODE ISLAND	194,000	2	571,082	88	360,000	6	6,797,084	0.021	778	0.026
SOUTH CAROLINA	738,310	19	393,233	74	2,561,000	50	13,023,413	0.040	831	0.028
SOUTH DAKOTA	1,200,828	14	12,533,739	2,309	2,728,000	38	27,609,731	0.085	2,970	0.100
TENNESSEE	6,653,713	84	179,679	56	9,427,000	218	136,206,883	0.422	1,624	0.055
TEXAS	114,479,038	1,671	891,755	127	2,896,034,000	205,694	3,594,968,273	11.126	251,097	8.489
UTAH	76,970,355	7,732	241,085	24	1,590,000	33	109,678,499	0.339	8,692	0.294
VERMONT	294,000	3	23,848	3	536,000	10	3,735,417	0.012	404	0.014
VIRGINIA	3,544,000	36	788,934	127	4,435,000	135	47,057,612	0.146	2,550	0.086
WASHINGTON	2,114,789	114	330,731	29	9,325,000	165	70,192,935	0.217	3,305	0.112
WEST VIRGINIA	1,609,091	20	2,086,141	162	4,749,000	89	19,088,799	0.059	610	0.021
WISCONSIN	5,014,601	75	335,503	29	7,575,000	113	63,752,294	0.197	2,718	0.092
WYOMING	1,744,158	56	310,635	45	3,406,000	46	16,290,696	0.050	605	0.020
OUT OF COUNTRY	8,415,079	183			4,035,000	790	439,710,420	1.352	20,086	0.679
TOTAL	952,484,111	60,131	2,015,893,449	271,251	3,458,967,000	218,482	32,311,171,279		2,957,803	

DEPOSIT LOCATION	INSTITUTION NAME, STATE $ BALANCE	# ACCOUNTS LINCOLN SAVINGS, CA	INSTITUTION NAME, STATE $ BALANCE	# ACCOUNTS AMERICAN PIONEER FED, FL	INSTITUTION NAME, STATE $ BALANCE	# ACCOUNTS FRANKLIN SAVINGS, KS
ALABAMA	504,947	26	591,974	34	2,299,916	104
ALASKA	387,870	19	127,113	20	530,869	30
ARIZONA	3,881,425	231	396,764	30	3,646,619	618
ARKANSAS	367,336	11	90,789	20	5,572,280	492
CALIFORNIA	1,083,884,637	95,937	906,181	102	18,258,579	2,004
COLORADO	1,606,711	63	207,917	17	5,427,593	458
CONNECTICUT	151,410	15	1,277,188	198	2,065,380	155
DELAWARE	103,493	6	111,721	19	558,209	49
DISTRICT OF COLUMBIA	42,811	5	26,615	7	1,893,860	36
FLORIDA	5,359,254	187	817,835,511	70,383	14,258,091	1,187
GEORGIA	1,614,555	61	1,677,071	135	9,270,279	280
HAWAII	620,564	47	121,521	11	1,566,245	57
IDAHO	648,863	27	14,693	6	1,310,313	127
ILLINOIS	4,181,454	105	1,479,755	173	20,740,451	1,323
INDIANA	1,480,059	41	1,137,515	108	7,024,439	461
IOWA	491,841	22	323,162	18	5,907,631	532
KANSAS	227,116	8	22,559	3	1,682,189,047	89,834
KENTUCKY	791,925	18	670,646	41	2,333,337	206
LOUISIANA	460,018	13			3,735,407	152
MAINE	86,088	12	810,970	91	472,648	24
MARYLAND	1,067,909	46	769,271	93	1,686,978	128
MASSACHUSETTS	516,035	45	2,961,519	272	1,211,653	106
MICHIGAN	754,499	46	2,925,135	327	7,879,615	520
MINNESOTA	3,539,570	42			9,565,756	493
MISSISSIPPI	132,599	4	50,566	9	849,128	18
MISSOURI	1,039,860	43	339,066	19	189,386,142	25,035
MONTANA	242,605	14	10,286	3	1,917,476	58
NEBRASKA	537,656	22	28,742	8	3,470,274	381
NEVADA	3,176,711	194	193,186	12	1,161,540	107
NEW HAMPSHIRE	184,018	3	550,111	65	270,587	29
NEW JERSEY	1,666,159	67	3,681,634	432	9,974,315	394
NEW MEXICO	364,692	24	64,352	7	2,993,422	129
NEW YORK	3,320,799	134	6,830,331	933	1,358,369,187	1,031
NORTH CAROLINA	197,810	20	1,961,869	130	1,786,881	185
NORTH DAKOTA	361,287	10	135,708	1	1,183,387	57
OHIO	1,493,796	77	2,020,931	292	8,005,073	565
OKLAHOMA	2,432,633	63	138,123	12	11,611,629	749
OREGON	2,599,305	158	149,155	18	2,653,344	133
PENNSYLVANIA	2,008,629	63	2,859,331	293	11,183,743	637
PUERTO RICO	847	2			162,985	15
RHODE ISLAND	11,004	2	161,962	31	106,582	10
SOUTH CAROLINA	95,971	15	527,786	28	872,285	105
SOUTH DAKOTA	319,994	12	489,130	37	1,131,818	86
TENNESSEE	478,446	28	423,524	69	86,822,070	250
TEXAS	6,850,521	186	1,602,909	67	35,575,665	1,273
UTAH	714,808	51	9,986	4	1,776,878	72
VERMONT	726	2	530,888	49	14,522	3
VIRGINIA	595,578	39	1,495,160	133	4,435,818	101
WASHINGTON	1,940,630	160			4,183,571	224
WEST VIRGINIA	271,217	16			1,897,835	76
WISCONSIN	788,877	25	502,629	36	9,004,050	569
WYOMING	261,983	6	95,137	5	819,378	56
OUT OF COUNTRY	5,614,713	404			20,396,425	583
TOTAL	1,147,141,788	98,855	859,744,052	74,801	3,570,395,219	132,307

DEPOSIT LOCATION	INSTITUTION NAME, STATE $ BALANCE	# ACCOUNTS	INSTITUTION NAME, STATE $ BALANCE	# ACCOUNTS	INSTITUTION NAME, STATE $ BALANCE	# ACCOUNTS
	HOMEOWNERS, MA		CITY FEDERAL SAVINGS, NJ		ABQ FEDERAL SAVINGS, NM	
ALABAMA	5,539,109	119	026,023	84	1,101,817	24
ALASKA	695,367	38	506,962	60	343,493	14
ARIZONA	2,345,496	90	3,809,529	311	3,010,658	300
ARKANSAS	3,180,537	72	601,336	49	1,890,130	39
CALIFORNIA	21,609,702	770	15,768,311	1,147	11,663,748	522
COLORADO	4,550,116	156	1,600,543	188	3,821,710	285
CONNECTICUT	7,956,276	356	3,874,588	634	634,915	19
DELAWARE	680,164	34	958,315	185	5,498	2
DISTRICT OF COLUMBIA	14,988,731	200	523,821	54	962,910	19
FLORIDA	54,527,642	2,548	887,577,179	110,354	3,151,736	126
GEORGIA	7,606,388	259	3,814,328	558	4,415,117	68
HAWAII	1,573,662	36	571,928	53	245,009	19
IDAHO	592,524	15	18,079	7	177,446	14
ILLINOIS	25,599,836	858	3,874,759	456	7,492,795	139
INDIANA	9,340,022	202	1,583,301	150	3,950,016	68
IOWA	2,685,068	82	399,265	23	1,552,857	42
KANSAS	3,150,774	81	176,308	50	1,792,224	48
KENTUCKY	3,073,170	85	590,422	82	893,203	13
LOUISIANA	4,702,239	122	800,348	128	1,196,774	12
MAINE	251,980,596	37,338	1,258,194	162	58,202	9
MARYLAND	2,842,319	163	3,562,590	574	804,131	59
MASSACHUSETTS	997,016,020	116,497	5,615,920	859	116,818	16
MICHIGAN	10,863,795	395	2,404,032	353	1,941,913	56
MINNESOTA	113,723,075	846	1,098,260	105	9,569,894	125
MISSISSIPPI	678,679	29	173,688	27	318,812	8
MISSOURI	11,847,580	253	877,375	131	3,278,776	70
MONTANA	809,204	23	421,107	12	1,070,912	22
NEBRASKA	1,021,975	33	168,431	18	497,365	29
NEVADA	1,364,220	44	504,292	106	568,417	65
NEW HAMPSHIRE	5,350,193	954	923,985	166	9,856	4
NEW JERSEY	12,063,880	705	3,678,014,102	615,170	1,461,717	36
NEW MEXICO	1,298,319	43	437,142	28	529,733,793	92,687
NEW YORK	21,234,006	1,029	43,408,703	4,723	3,741,747	202
NORTH CAROLINA	2,532,468	363	6,002,423	718	307,894	17
NORTH DAKOTA	1,350,363	25	57,749	4	1,620,407	21
OHIO	7,733,260	325	62,990,429	874	1,666,103	68
OKLAHOMA	6,647,232	172	1,092,228	62	3,295,554	88
OREGON	2,679,271	78	702,526	52	1,195,559	62
PENNSYLVANIA	12,469,212	581	43,514,656	7,099	2,019,468	41
PUERTO RICO	0	0	1,193,318	207	56,556	4
RHODE ISLAND	2,440,639	452	307,594	69	1,484	1
SOUTH CAROLINA	1,107,590	63	1,329,886	255	118,847	9
SOUTH DAKOTA	798,336	26	193,941	9	201,451	7
TENNESSEE	6,167,431	155	1,416,975	187	1,995,198	33
TEXAS	31,455,260	520	7,926,328	634	13,266,911	521
UTAH	2,783,197	56	265,577	18	1,183,102	17
VERMONT	872,855	103	578,417	125	31,914	4
VIRGINIA	5,566,691	234	3,886,409	721	1,375,731	57
WASHINGTON	5,815,513	161	1,201,413	144	1,977,484	75
WEST VIRGINIA	1,110,003	35	666,712	66	336,600	5
WISCONSIN	4,574,012	208	616,349	121	2,664,758	54
WYOMING	698,734	12	278,674	12	150,158	14
OUT OF COUNTRY	0	0	22,345,051	2,471	40,512,478	518
TOTAL	1,703,454,557	166,058	4,823,296,815	751,276	655,558,424	96,400

Mr. ARCHER. Finally, I would like to ask you this. I noticed, Mr. Ryan, in your comments about category I, which were the healthy savings and loans, that they had more than 70 percent of their loans to residential mortgages. Is there any further restriction that Congress should put in place as to limiting the other types of investments which are riskier relative to raw land, the development of raw land? We have already limited the junk bond potential as an investment.

Should we consider anything along those lines because just listening to your figures, it is clear that the healthier ones are in residential mortgages, and the unhealthy ones have gotten into more of the speculative type of investments.

Mr. RYAN. Two comments, Mr. Archer. One, it is clear that the healthier institutions are in compliance with the FIRREA-mandated QTL test. The second comment is that from my standpoint I think it is a little too early to make any major revisions to FIRREA; it has only been in place a year, and we are just now phasing in all of its requirements, and we are not sure which requirements work, to which level, and which requirements need modification.

So as to major changes today, we are not in a position to make any recommendations.

Mr. ARCHER. I thank you, and I thank you gentlemen. I wish you the very best in an extremely difficult job.

Mr. RYAN. Thank you.

Mr. SEIDMAN. Thank you.

Mr. PICKLE. Mr. Andrews.

Mr. ANDREWS. Thank you, Mr. Chairman.

I'd like to yield my time back to the chairman, Mr. Pickle.

Mr. PICKLE. Well, I thank the gentleman for yielding the time back, and I accept your time but I am going to proceed with some of the other members. I may come back, since I asked questions for the chairman, but in deference to the members, I will reserve the time, and I thank the gentleman.

Mr. Cardin.

Mr. CARDIN. Thank you, Mr. Chairman.

Mr. Seidman, I would like to focus on third-party civil recoveries. I know that is not specifically under your jurisdiction, but what concerns me is that we have yet to receive any hard estimates as to what the Government anticipates recovering from insurance carriers of officers and directors or from the operators themselves.

I would just like to get your comments as to how you have been involved, particularly in your onsite inspections of the savings and loans, in helping develop some estimates of what we anticipate recovering from either insurance carriers or from individuals.

Mr. SEIDMAN. I have said a number of times that I think the recoveries will be a very small percentage of the losses; that if we recovered 3 or 4 percent of the losses, that that would be an outstanding job. The reason is that most of these losses involve losses in property values where no one has run off with the money; it is simply that the bank lent against property at a high value, and the property went down, and whoever was the last seller got the money.

So with regard to what we are doing, however, about recovering every dollar we can, we have a specially trained fraud squad which we send in to every savings and loan that falls into the RTC. They spend whatever time is necessary to develop whatever cases we can develop, either civil or criminal, against the directors, the officers, the accountants, the lawyers, and all others who might be responsible for the failure and for the loss. We then, ourselves, bring civil suits against these parties, and we turn over evidence of criminality to the Justice Department, and they are charged with bringing criminal suits.

So every single savings and loan is reviewed to determine what claims we might have, and all claims are pursued.

Mr. CARDIN. Do you have adequate staff in order to pursue the civil claims?

Mr. SEIDMAN. We don't at this point. We are hiring rapidly. We have about 1,000 lawyers. We will probably, by the end of next year, have another 1,000 lawyers onboard; and we have hired about 500 outside law firms for various legal tasks including this.

Mr. CARDIN. Have you developed any estimate—I understand you are saying 3 to 4 percent—but if I understand you, you are then saying $3 to $4 billion is what you would anticipate in recovery.

Mr. SEIDMAN. I said that would be an outstanding job if we could accomplish that. We don't have any indications at this point that the returns will be that high.

The problem is that the insurance amounts are limited; the policies are limited. We recover everything we can. Many of the people who are liable simply don't have the funds. They have either wasted them or hidden them. So the possibility of large recoveries in terms of the size of this loss is very small.

Mr. CARDIN. I am wondering whether you have reviewed the way that third party recoveries were handled in the State of Maryland, where we did recover a substantial amount on recoveries—I don't know the exact percentage, but there were certainly some very substantial——

Mr. SEIDMAN. Well, we helped Maryland with that; we actually provided them with assistance in that regard. I don't know what percentage it was, but I believe as a percentage of loss, it was small.

Mr. CARDIN. I'm not sure that is accurate and I don't have the percentages in front of me, but I guess I would ask if there is a game plan for how you expect to time the recoveries. I would certainly like that information shared with our committee so that we have some indication as to what to anticipate on the timing of actions being brought and the anticipated recoveries.

Mr. SEIDMAN. It takes about 6 to 9 months in most institutions to gather the information we need—some are less and some are more. Then we bring the suits. Then, of course, it goes into the courts, or we settle with the insurance carriers.

We'll be glad to give you procedures, but as to estimating exactly what we can recover, I'm not sure we are capable of really giving you much that would be valid in that regard.

Mr. CARDIN. Thank you very much.

[The following was subsequently received:]

The committee has asked for a short explanation of the procedures we use and the timeframes that may be expected in our pursuit of professional liability suits. Immediately after any institution is placed under the control of the RTC, the RTC sends investigators, operating under the direction of the Professional Liability Section of the Legal Division, into the institution to gather the information required to decide whether the RTC should pursue professional liability litigation. The principal focus of the initial inquiry is on the directors and officers of the institution, and fidelity bond claims.

The amount of time necessary to make a preliminary evaluation varies widely from institution, depending especially on the size of the institution and the complexity of the institution's lending activities. Nevertheless, investigators are commonly able to generate a preliminary report for review by professional liability attorneys within 60 days of the closing of the institution. While other professionals are not the principal focus of this initial review, wrongdoing by attorneys, appraisers, and securities or commodities brokers often are also addressed in the investigator's first report.

That preliminary report is only the beginning of the process, however. While the preliminary report may contain sufficient information for the agency to decide that no cost-effective viable claim exists, it is not intended to be sufficient to make an affirmative decision to sue. Thus, if a viable claim appears possible, the professional liability attorney receiving the initial report normally directs the investigator to conduct further investigation into matters that appear to warrant additional attention. After the investigation is complete, the agency is very careful about bringing these types of cases—each recommendation to sue is reviewed and approved by the General Counsel and by the Deputy to the Chairman of the FDIC. This review by supervisory levels of the RTC is generally completed in 2 to 4 weeks if no substantive questions arise.

Although professional liability investigations are often time consuming, two kinds of cases may be brought soon after the institution is closed: Simple cases of abuse on the one hand, and those that warrant the highest priority on the other. For example, at one extreme, simply bond claims may be filed as soon as 6 months after the institution fails while, at the other extreme of complexity, the complaint against the directors and officers of Centrust of Miami was filed almost exactly 9 months after the institution failed.

In most cases, however, the investigation is not completed that quickly. The volume of investigations and cases, combined with the problems inherent in staffing an essentially start-up operation, mean that many of these cases will not be filed until 2 or 3 years after the institution closed. We continue to add staff, including more than doubling the number of professional liability attorneys, in an effort to both speed and better control these cases.

Mr. PICKLE. Mr. Sundquist.

Mr. SUNDQUIST. Thank you, Mr. Chairman.

Mr. Seidman, Tim, it is good to see both of you.

What is the size of the assets that we are trying to dispose of now, round numbers?

Mr. SEIDMAN. The RTC has around $165 billion in assets on hand at the moment.

Mr. SUNDQUIST. How is that going, the sale of the assets? I know the money it is taking is eating us up, isn't it?

Mr. SEIDMAN. The asset sales are increasing; in other words, we are increasing the pace of asset sales. We spent really the first 6 months getting set up, getting private contractors and getting ready to move assets.

We are moving the easily-sold assets within a year, but about 40 to 50 percent of the assets are not easily-sold; those are taking longer. The pace of those sales are increasing. We have just set up sales offices to deal with those around the country. We are just beginning to deal with large, bulk asset sales. We are awaiting the Oversight Board's determination of what kind of financing we can provide which will help sales.

So we should do much better than we have in the future.

Mr. SUNDQUIST. There has been some discussion by you and others that we would package these—and perhaps the Government would share in the upside gain with the private sector—to get these off of our hands by letting the private sector pay the interest, make the decision of what to hold and what to get rid of.

Are we making progress on that?

Mr. SEIDMAN. We are making progress on that. The basic form that is going to be used has been approved. We set up a special sales division to deal with big investors who would be involved in those transactions. The part of those transactions that is still not clearly enough defined to get them off the ground is the financing.

Mr. SUNDQUIST. I don't have any other questions, Mr. Chairman, but I do want to thank Mr. Ryan and Mr. Seidman very much because they are in the middle of a terrible problem, and I think they are doing a wonderful job.

Thank you.

Mr. SEIDMAN. Thank you.

Mr. PICKLE. The Chair recognizes Mrs. Kennelly.

Mrs. KENNELLY. Thank you, Mr. Chairman, and thank you, gentlemen, for being here.

We have had a great deal of testimony concerning the savings and loans, and who is to blame, and I think all of us agree there is plenty of blame to go around.

What I am interested in is what happens next. And Mr. Seidman, I have introduced two pieces of legislation, one having to do with net operating losses, and carrying them back for tax deductions for these institutions; and the other one has to do with loan swaps. Since 1980, savings and loan institutions have been able to swap almost identical loans but not put on the books the difference in the value.

Have you heard, or has any discussion come up on this type of loophole-closing in your presence?

Mr. SEIDMAN. That would really fall in Mr. Ryan's area first. I am not familiar with anything that has come up on loan swapping. Maybe Mr. Ryan has something on it.

Mr. RYAN. I am familiar with one enforcement action we have, in fact, presently in your State of Connecticut, involving loan swapping. Obviously, that is of concern to us.

Mrs. KENNELLY. Could I respectfully ask that you gentlemen take a look at these two pieces of legislation?

Mr. RYAN. We'd be pleased to do that.

Mr. SEIDMAN. We'd be glad to.

Mrs. KENNELLY. Thank you.

Mr. Ryan, you grouped thrift institutions into four groups. You mentioned Connecticut, and obviously, you know I am from there, and New England. We are having a recession. Where would the majority of our institutions land in your four groups if you were looking at New England as an entity?

Mr. RYAN. I could provide that to you for the record. I do not have that on the top of my head here. As I said, there are about 2,500 institutions, and I do not have the specific numbers nor the breakdown for any one State.

Mrs. KENNELLY. Thank you. I am going to request that I get that breakdown.

Thank you, Mr. Ryan, thank you, Mr. Seidman. It is always wonderful to hear from you.

[The responses of Mr. Seidman and Mr. Ryan follow:]

MR. SEIDMAN'S RESPONSE TO MRS. KENNELLY'S QUESTION

H.R. 5673 would amend the Internal Revenue Code in two respects. First, it would add to the Code a section which prohibits the recognition for federal tax purposes of losses which taxpayers incur as a result of exchanging pools of debt instruments. As you may know, the practice which this amendment seeks to prohibit is the subject of litigation before the Supreme Court between the Internal Revenue Service and several parties, including the RTC as receiver for Centennial Savings Bank, F.S.B.

In 1980, the Federal Home Loan Bank Board issued Memorandum R-49 regarding the accounting treatment to be given reciprocal sales of mortgage loan pools ("swaps") between savings and loan associations. The Memorandum provided that an association would not be required to recognize a loss on such swaps if the association received loans with a principal amount no less than the loans it transferred and if the loans exchanged were "substantially identical" as measured by certain criteria set out in the Memorandum. Associations could thus claim a deductible loss for tax purposes, helping them reduce their income tax obligations, without having to recognize the loss for regulatory accounting and reporting purposes.

Many associations engaged in loan swaps and claimed tax loss deductions. The Internal Revenue Service, however, took the position that such losses were not recognizable for tax purposes and disallowed them. The IRS regarded the swaps as having been entered into solely to generate tax losses and without an underlying business purpose. Several associations (including Centennial prior to its coming under the control of the RTC) challenged the IRS's position, and most, but not all, have prevailed. Because of the significant amount of income at stake on a national basis, the IRS has pursued its position in the Supreme Court.

However, the favorable accounting treatment accorded these swaps under Memorandum R-49 is no longer available to savings institutions; under current regulatory requirements thrifts must account for such transactions on the basis of generally accepted accounting principles, which generally require recognition of the loss. Thus, while the outcome of the case before the Supreme Court is of great interest to the FDIC and RTC as it will affect the amount of refund claims receivers may hold against the IRS (or deficiency claims the IRS may hold against receivers), the amendment as drafted will not affect these claims, as it will govern only future transactions.

The second section of H.R. 5673 would amend Section 593 of the Internal Revenue Code to require that thrift institutions take into account in their computation of their bad debt reserve deduction under the percentage of taxable income method for a tax year any net operating loss that may be carried to such tax year.

Financial institutions are permitted a special deduction for increases during the tax year in their bad debt reserves. The amount of such bad debt deductions calculated by one of two methods: the "experience" method or the "percentage of income" method, in which the mount of the deduction is based upon a percentage of institutions's taxable income. The effect of the amendment would be to reduce an institutions's taxable income for the purposes of the percentage of taxable income method and thereby lower the applicable deduction. Since institutions under control of the FDIC or RTC are insolvent and generally have no current taxable income, and therefore derive no benefit from the deduction, the amendment is unlikely to affect our operations.

RESPONSE FROM MR. RYAN

Office of Thrift Supervision
Department of the Treasury
1700 G Street, N.W., Washington, D.C. 20552

The Honorable Barbara B. Kennelly
United States House of Representatives
204 Cannon House Office Building
Washington, D. C. 20515

Dear Congresswoman Kennelly:

This is in response to your request for information during the September 19, 1990, hearing before the Committee on Ways and Means on the condition of the thrift industry.

My legislative staff is currently reviewing H.R. 5673, which you introduced, and examining how amending the Internal Revenue Code of 1986 will effect the private sector savings and loan industry. Once their review is complete I will forward our response to you.

You also requested that the Office of Thrift Supervision provide information on the second quarter classifications of Connecticut private sector thrifts. That information is enclosed.

I appreciate your interest in these matters and want to thank you for the opportunity to report on the condition of the private sector savings and loan industry, before your committee.

Sincerely,

Timothy Ryan

Enclosure

SECOND QUARTER OTS CLASSIFICATION OF CONNECTICUT PRIVATE SECTOR THRIFTS:

(As of September 24, 1990)

Group I	14
Group II	4
Group III	3
Group IV	2
Total	23

Mr. PICKLE. Mr. Anthony.

[No response.]

Mr. PICKLE. Mr. Guarini.

Mr. GUARINI. Thank you, Mr. Chairman.

I believe I express the sentiments of many members of the Congress and my colleagues, Mr. Seidman and Mr. Ryan, that we have a great deal of confidence in your ability to pull us through, and we all hope that you are successful in minimizing the losses that we have and making sure that this doesn't happen in the future.

Let me ask you, do you support the recent House action where they eliminated the cap on FDIC premiums?

Mr. SEIDMAN. Yes.

Mr. GUARINI. And should we do the same for FSLIC?

Mr. SEIDMAN. Yes.

Mr. GUARINI. And are there any reforms that you could suggest that we make for deposit insurance? Should we limit the $100,000 amount, or should we limit the number of persons who can be recipients of the guarantee?

Mr. SEIDMAN. Well, I have testified extensively on that. It would be very hard to answer that in short order, but I think there are a number of things we need to do, including ensuring that we have increased capital, ensuring that capital can come from the corporate sector, reducing the risk that institutions can take with insured funds, getting some kind of an agreement on the "too big to fail" doctrine, especially with respect to its international aspects—that is a big subject. But there is a lot that has to be done——

Mr. GUARINI. Exactly.

Mr. SEIDMAN [continuing]. And what I would like to say is that we can't cure it just by increasing the premiums. We have to cure the problem of the risk that there is in the deposit insurance system.

Mr. GUARINI. Are people presently rearranging their investments to maximize their $100,000 insurance for those that are presently over the $100,000 deposit—and are we allowing that to happen?

Mr. SEIDMAN. A great many people are, yes.

Mr. GUARINI. So, therefore, we are extending our guarantees because now they realize there is a problem, so if they have $300,000 in the account, they will just divide it up amongst three accounts so everybody is insured; so that we gave extra opportunity to these people.

Mr. SEIDMAN. Well, in the large banks, about two-thirds are insured and one-third are uninsured.

Mr. GUARINI. What about the 1988 contracts in which some feel that there were unfortunate deals that were made with Mr. Perelman, Mr. Bass and others, where there were perhaps $54 billion or more worth of tax concessions that were made; is there any consideration given to breaking these contracts?

Mr. SEIDMAN. We have not given any consideration to breaking the contracts. We have given consideration to exercising options on the contracts and to determining whether or not any contracts were invalidly signed by the Government.

Mr. GUARINI. But it is being looked into by the Government at this time?

Mr. SEIDMAN. Pardon?

Mr. GUARINI. Is there any desire on the part of the administration to break any of these contracts, if possible?

Mr. SEIDMAN. I don't think there is any desire to break a legitimate contract made by the Government, no.

Mr. GUARINI. On lax supervision, part of the problem we have in Texas and other States is lax supervision. Has that been corrected—the lax State supervision of the savings and loans, the regulations that were very lenient?

Mr. SEIDMAN. Yes, that has been addressed. FIRREA addressed that both in the standards provided in making the FDIC the backup regulator.

Mr. GUARINI. There are new criteria to ensure that this will not happen in the States again by reason of State deregulation?

Mr. SEIDMAN. Yes. The State institutions are being regulated by the Federal Government.

Mr. GUARINI. And what would you estimate is the criminal misconduct involved in regard to the savings and loans that have been liquidated or repossessed?

Mr. SEIDMAN. We found somewhere around 40 percent of the institutions have some kind of criminal conduct or insider abuse. That number is going down as institutions that we are getting now, that number wouldn't be that high. But I want to make clear that while there is criminal conduct or abuse in these institutions, that is not the total reason for the loss by any means.

Mr. GUARINI. You have been quoted as saying you believe that there is about 60 percent that is due to misconduct, and much of it criminal; is that a fair statement?

Mr. SEIDMAN. Well, it was 60 in the early ones; it has been going down because we haven't found as much in the later ones.

Mr. GUARINI. And can you tell us what percent of the money do you think we will be able to recover, the assets—GAO I understand estimated the fair market value of what we can recover is 45 percent, but by the time the sale has taken place and discounts are given if the sale is not made within 6 months, it will be much less than that. Have you got any idea that you can give us as to what you think we may recover?

Mr. SEIDMAN. Well, roughly it breaks down, about 50 percent of the assets in the institutions we recover about book value or maybe 5 percent less; the other 50 percent is where we take the losses, and in those cases we may recover on average 50 percent of the value. The overall losses in the institutions are running around 20 percent.

Mr. GUARINI. And if the recession deepens, the sum would become perhaps even greater.

Mr. SEIDMAN. If we have a recession and property values go down, the losses will be larger.

Mr. GUARINI. I wish you good luck, and thank you.

Mr. SEIDMAN. Thank you.

Mr. PICKLE. Mr. Schulze.

[No response.]

Mr. PICKLE. Mr. McGrath.

[No response.]

Mr. PICKLE. Mr. Chandler.

[No response.]

Mr. PICKLE. Mrs. Johnson.

Mrs. JOHNSON. Thank you, Mr. Chairman.

Welcome, gentlemen, and thank you not only for your good testimony but your fine work.

I'd like to better understand the relationship between some of the figures that you gentlemen have given.

Mr. Seidman, you comment in the first part of your testimony that you have resolved close to 300 institutions at an estimated cost of $36 billion. Later on in your testimony you estimate that to the best of your ability the total cost of the problem at this time will be between $90 to $130 billion for 700 to 1,000 thrifts.

Now, the first 300 basically cost you $36 billion, so if your estimate is 700, then why is the low end $90 billion? Then let me just throw in another question. From Mr. Ryan's charts, in his category IV, the total number of institutions is 246. So I don't understand where the 700 institutions come from and the $90 billion.

Mr. SEIDMAN. We have actually handled just under 500 institutions so far, 489 institutions. And therefore if we get the other 250 or so that he has, that will bring us up to 700.

Mrs. JOHNSON. So you have actually done 500 now?

Mr. SEIDMAN. We haven't resolved them all. That is how many we have had under our control. Some have been closed, and the rest are awaiting our tender, loving care.

Mrs. JOHNSON. I see. So there are about 250 that don't show up because they are not resolved, and they are not in group IV?

Mr. SEIDMAN. That's correct. They are in our inventory.

Mrs. JOHNSON. Thank you very much. Two other short questions. You made some statements recently, Mr. Seidman, that you thought there was some good sense in not closing some of the fragile thrifts. I'd like to hear you talk about that a little bit more. In New England, as you know, we have a very severe credit crunch. It has now reached the point where the drop in land values is endangering otherwise sound institutions—institutions that would have been sound a few months ago. Do you believe some forbearance ought to be explored?

Mr. SEIDMAN. Well, we never use the term "forbearance"; we call it supervised management. And Mr. Ryan and I have been exploring every idea that we can find that might reduce the cost, and we think there are at least some institutions that might be more efficiently handled and at lower cost if they weren't closed immediately because they do have capital, because they are operating at at least breakeven, and because they do have reasonably good management.

We are exploring those possibilities. We haven't come to any conclusion yet as to whether that is something we want to recommend.

Mrs. JOHNSON. Thank you. I am pleased that you feel free to consider all of those options. I would hate to think that the atmosphere in which this problem is being approached prevented you from making those kinds of considerations.

Last, would you clarify your answer to one of the earlier questions. In light of your experience to this point, what percent of the cost of the problem would you attribute to fraud and individual criminal activity?

Mr. SEIDMAN. The cost in terms of what criminals got away with is pretty small, maybe 5 percent or something like that, in terms of what they could pocket. But the damage they did is much greater than that because they brought institutions down in many cases where the losses were far greater than what they took out of them, and I think there has been kind of a misunderstanding of what these numbers really are.

In terms of what has been stolen, the numbers are small compared to the total loss.

Mrs. JOHNSON. So your 66 percent figure never referred to the amount of money that they personally benefited from.

Mr. SEIDMAN. No; that is correct.

Mrs. JOHNSON. OK, thank you. That is very helpful. Thank you very much.

Thank you, Mr. Chairman.

Mr. PICKLE. Mr. Dorgan.

Mr. DORGAN. Thank you very much.

Mr. Seidman, Mr. Ryan, thank you for being here. Let me take you back to talk about the 1988 deals and the tax incentives involved in those deals.

I was doing some reading yesterday to understand a little more what happened then and what the response might be now to that by you and by Congress. Is there any reason to believe that we were intentionally misled in late 1988 about the magnitude of these deals, about the cost of the tax forgiveness, and about who was getting what?

The reason I ask the question is it looks to me now, if you go back and look at what the people who preceded you did, they gave some pretty sweet deals to some folks who had never been involved in the savings and loan business. At least part of the fuel for those deals was tax incentives that were very generous. And as I evaluate now what was said then, compared to what we know now about the size of that tax forgiveness, it seems to me that either we were misled, or people who were giving these tax benefits away were doing so without a great deal of knowledge.

What is your impression of that, Mr. Seidman?

Mr. SEIDMAN. Well, we haven't studied that, Mr. Dorgan, so I am hardpressed to say anything except they certainly did know they were giving tax benefits away and that they were substantial; and that was the reason for their whole rush to do all these deals, because they thought they could do the deals with the tax incentives. So I think it was well-recognized there were large tax incentives. Whether they estimated them correctly or not, I don't know.

Mr. DORGAN. Will you know that at some point?

Mr. SEIDMAN. No—I mean, we haven't been asked to make that study.

Mr. DORGAN. Well, FIRREA actually asked you to do a more comprehensive review, and my understanding was that yesterday that review was to have been presented to the RTC, which would include an evaluation of the tax incentives in the 1988 deals.

Mr. SEIDMAN. Yes. We are looking at the tax incentives, but we are not looking at the question of whether somebody was misled in 1988 by statements made then. In other words, we are simply looking at the tax incentives that are in the deal and bringing to the

attention of the Treasury what alternatives there are in handling taxes that might reduce the costs.

Mr. DORGAN. Well, you know, in order for us to try to understand what we are doing in public policy, we have got to deal with good information that lays out the problem and work with you to try and find the right solution.

Mr. SEIDMAN. Right.

Mr. DORGAN. And the reason I ask the question about the 1988 deals is that I am one who believes we still ought to go back and review that.

Mr. SEIDMAN. Well, we could do that. Simply, we haven't been charged with that duty. I mean, if somebody believes that we ought to do that—Lord knows, we are not asking for any more work—but we basically did not try to go back and evaluate how well the Bank Board did. Our job was to see how much money we could save based on the contracts we were handed.

Mr. DORGAN. Well, we fight over here on $10 million and $15 million and $20 million items over on the floor of the House. It seems to me we are talking here about the growth of the estimates and what the tax forgiveness was by a couple of billion dollars, maybe more. And I would like to understand whether those deals were solid in the first place.

We had a debate here about a year ago in this committee on whether we should go back and revisit those, and there was substantial discussion about whether we should ever move retroactively on tax policy. And the conclusion, by a 14 to 16 vote, was no.

Maybe we ought to talk about that again if there is any evidence that we were deliberately misled back at the end of 1988 and if this is going to cost a substantial amount more than was previously estimated, if it is not going to work, if things are not put together as we expected them to be, then maybe we should go back and revisit it. And I would like, and I know that the gentleman from Illinois, Mr. Russo, and others are interested in at least initiating that discussion.

So how do we charge you or ask you to review the questions that I have asked about whether we were misled in 1988?

Mr. SEIDMAN. We can I am sure go back in the record and provide you whatever was said at that time, and our present study provides you with what we know about what the taxes are. So I think it would be a matter of going back and getting the record and presenting it to you, and then you could make a determination whether you felt you were misled or not.

Mr. DORGAN. Mr. Seidman, I'd like to make that request that you work with us to see if we can recreate that to determine on what basis were these decisions made, and was the information developed appropriately. Were there intentional statements made to try and mislead others about the magnitude of what was done? If that were the case, I think there would be more incentive for those of us to correct this.

Mr. SEIDMAN. I don't think we are in a position to determine whether statements were intentionally or unintentionally made, but we will try to get the record in front of you and then you can make that determination.

[The following was subsequently received:]

With regard to the issue of whether the Congress was deliberately misled at the end of 1988 concerning the magnitude of the 1988 deals and the cost of the tax forgiveness, we feel this question is most appropriately answered by the Office of Thrift Supervision. That agency, as successor to the Federal Home Loan Bank Board would most likely have documentation on hand, from historical reference perspective, which could be analyzed and the results presented to the Congress for its review.

Mr. DORGAN. I understand.

Let me just make one other observation. Part of your job is to make recommendations on where you have discovered fraud to the Justice Department. That is of little consolation to you if you don't see much action on them. We had a hearing several months ago in which we asked you about what you were submitting to Justice. How many active cases have you sent over to Justice in the last year or so in which you have said here is fraud that we have discovered in these savings and loans?

Mr. SEIDMAN. Well, we have sent over thousands of citations. Does anybody know how many the RTC has done—it must be at least a couple thousand. But some of those are small items, some are big items. Every time we find an indication of fraud, we send the matter to the Justice Department, and then they determine whether they want to investigate further, and then they use our people with theirs to investigate.

Mr. PICKLE. The time of the gentleman has expired.

Mr. DORGAN. I yield back the balance of my time, Mr. Chairman.

Mr. PICKLE. Mr. Seidman, I understand your responsibility as head of the RTC is to try to sell property and be accountable for the assets you have and not pass judgment on the 1988 deals. But you represent the FDIC, and you do have the whole ball of wax now. Have you any reason to believe that in the 1988 deals, there was any element of fraud or dishonesty in those projects?

Mr. SEIDMAN. Not at this time, we don't. We are still looking at them, but at this time we have no evidence of fraud in those deals.

Mr. PICKLE. Well, it has been recommended in one of the previous hearings that we might just buy out these contracts now. Which might save $1 to $2 billion, but would cost us $10 million in short-term outlays probably to do it.

Do you recommend taking this action now?

Mr. SEIDMAN. Well, if I had the money, I would do it. But you gentlemen are the ones who determine what funds you have and what you are going to use.

Mr. PICKLE. I am asking you specifically do you recommend we do that or we not do it right now?

Mr. SEIDMAN. I recommend that you give us the money, and with a little luck, we'll renegotiate the deals, and you won't have to spend it.

Mr. PICKLE. All right. I'll come back to that.

In the meantime, Mr. Levin.

Mr. LEVIN. My colleagues are coming back. We just have a vote on, as you know.

Mr. Seidman, is it possible—and welcome——

Mr. SEIDMAN. Thank you.

Mr. LEVIN [continuing]. Is it possible that when this is all over, more than half of what we spend on the savings and loan mess will be in interest payments?

Mr. SEIDMAN. That depends entirely on how it is financed. If it is financed——

Mr. LEVIN. Well, the way we are going now.

Mr. SEIDMAN. If it is financed with 30-year money, it is going to be more than half, yes.

Mr. LEVIN. And that is the way we have been progressing, basically; that's the way we have been handling it.

Mr. SEIDMAN. Yes.

Mr. LEVIN. So if we follow the present course, it is very possible that more than half will be in interest payments?

Mr. SEIDMAN. Yes.

Mr. LEVIN. I think this should be pointed out as one of the consequences of a nation heavily in debt. And it is hard for me to explain to constituents how hundreds of billions are being spent in the first place, especially how half of this is going to be because of irresponsible fiscal policies.

All right. I want to pick up on Mr. Pickle's question. You saw the press reports on your report on the 1988 deals, and in it, it says that you are holding off making a recommendation on whether to restructure the deals until you meet with the Secretary.

Mr. SEIDMAN. With the Oversight Board, yes.

Mr. LEVIN. And the Oversight Board.

Mr. SEIDMAN. Yes.

Mr. LEVIN. But tell it to us the way you really feel. We can save several billions by up-front financing. Should we or should we not do that?

Mr. SEIDMAN. Well, as I have just said, Mr. Levin, I think that Congress ought to authorize us to save this money if they can find the funding. If we don't, why there is $2, $3, $4 billion that is just being wasted. So, yes, if the funds are available, there is no question that we'll save money by using them, and we may be able to save it without actually spending all of it by renegotiating the deals.

But whether or not the Congress ought to appropriate funds is a much bigger question and involves the whole budget summit and so forth, and I don't know what is going on there so I can't evaluate that.

Mr. LEVIN. When you meet with the Secretary are you going to urge him to recommend to the Congress that you be given this money?

Mr. SEIDMAN. I'm going to meet with the Secretary and the Oversight Board to discuss what ought to be done. My own board has to make a decision, and they are studying it, too. So when this has been done, there will be a recommendation.

Mr. LEVIN. There was reference to fraud or misconduct in 40 percent of the cases that came to you initially. Do you know in what percentage of that 40 percent there have been both investigations and indictments?

Mr. SEIDMAN. Well, there have been investigations in every one of them. I don't know how many indictments there would be, but it would be a relatively small number.

Mr. LEVIN. How do we explain that to constituents?

Mr. SEIDMAN. I'm sure that the citizens will not be particularly pleased, but the fact of the matter is that these are very complicat-

ed cases; they take a long time; there will be a lot more indictments coming down, and I think the important thing to do is to prioritize them and get the big ones first, and I think they have been doing that.

Mr. LEVIN. So you are content with the rate of progress of investigations and prosecutions?

Mr. SEIDMAN. Fortunately for me, that is not my responsibility, and I have enough to do so that I don't really need to look into how the Justice Department is functioning. As far as I know, they are doing a good job.

Mr. LEVIN. My only suggestion is that in a way it does affect your work because the atmosphere within the country affects the ability of the Executive and the Congress to face up to the monetary needs here. And if I might suggest it, I think you are compartmentalizing—I know you are not the Attorney General—but I really think that your office needs to at least observe that pace, if not monitor it, because it really is intimately involved with—if there is a feeling that the Government is dragging its feet—and there is that feeling—it is going to affect our ability, for example, to vote cash up front.

Mr. SEIDMAN. Well, our board is concerned with that, and Mr. Ryan, who is on our board, has taken the leadership in pursuing those matters with Justice. So we are actively engaged with them, and he may want to comment on that.

Mr. LEVIN. Mr. Ryan, are you satisfied?

Mr. RYAN. I can say that I am very satisfied today. I was less satisfied when I started 6 months ago. I think the last 6 months there has been very aggressive action by the Justice Department. The Attorney General has appointed a special counsel, Jim Richman, who is doing a tremendous job. We have prioritized all of our cases among all of the bank regulatory agencies, which the chairman just mentioned, and we have provided them with a list of our 100 top cases. They are moving very aggressively on all 100 cases, and today—I think I can speak for almost all of the bank regulatory personnel—we are very pleased.

Mr. LEVIN. In how many of the 100 cases have there been indictments?

Mr. RYAN. In total over the last 3 years, there have been 400 indictments——

Mr. LEVIN. No, no. Of the 100 instances, your top priority, in how many of those have there been indictments?

Mr. RYAN. I cannot give you the exact number. I know there have been a significant number just since we have given them the list, which has been only in the last 2 months.

Mr. LEVIN. Could you supply that to us.

Mr. RYAN. I would be glad to.

Mr. LEVIN. If you could, promptly—you always do things promptly—I mean soon—because I would think you could obtain that quickly.

[The following was subsequently received:]

Office of Thrift Supervision
Department of the Treasury
1700 G Street, N.W., Washington, D.C. 20552

The Honorable Sander Levin
House of Representatives
323 Canon House Office Building
Washington, D. C. 20515

Dear Congressman Levin:

This is in response to the question you posed at the September 19, 1990, hearing before the Committee on Ways and Means on the condition of the private sector savings and loan industry.

Pursuant to that question we are enclosing our response. I trust this information responds to the your concerns. Again, thank you for the opportunity to testify.

Sincerely,

Timothy Ryan

Question: In how many of the (top) 100 cases have there been indictments?

Answer:

One of my top priorities when I took office six months ago was to make sure that OTS had a vigorous enforcement program that would rid the thrift industry of wrongdoers and compel them to return their ill-gotten gains to the public. We have made several important strides in pursuit of that goal.

The effectiveness of OTS's enforcement actions is predicated on close cooperation with the Justice Department, which is able to bring criminal prosecutions. We are working well and closely with the Justice Department and recently provided them with a list of the top 100 criminal referrals. In the past two years, approximately 328 indictments have come down and 231 savings and loan defendants have been convicted. There are 654 pending investigations as well. We understand that grand juries have already indicted 79 defendants from 47 different institutions on the top 100 list.

Mr. LEVIN. I'll just ask one other question quickly and then turn it over to Mr. Moody.

Tell me how the math works out, quickly. You talk about needing $50 billion plus $50 billion right way. Group IV, the assets are $166 billion, and you expect a loss of 20 percent. Could you just tell us, because I don't quite see——

Mr. SEIDMAN. Well, the losses, of course, depend on the individual institutions, and the loss rate has been going down, so I think the loss rate if we get those will probably be lower than the average we have to date, because those are—in other words, we took the worst first, so the institutions that we are getting to now are less costly.

Mr. LEVIN. My time is up. Maybe as others ask questions and you reply to them, you or Mr. Ryan could tell us how, taking your four groups, you come up with your figures of $50 billion plus $50 billion-plus.

Mr. SEIDMAN. Yes, we'd be pleased to do that.

Mr. LEVIN. Because it doesn't bounce off of you immediately.

Thank you very much, Mr. Chairman.

Mr. PICKLE. Mr. Moody.

Mr. SEIDMAN. If I might just answer that, there is roughly $500 billion involved in the total number of institutions, and at 20 percent, that is $100 billion.

Mr. PICKLE. Mr. Moody.

Mr. MOODY. Just to follow up on that, Mr. Seidman, $500 billion are the assets outstanding under categories III and IV, and 20 percent of those would be expected to be loss? Is that what you are saying?

Mr. SEIDMAN. Twenty percent of all the institution assets that we handle, we expect the loss to be in that area.

Mr. MOODY. Those assets would gross out at $500 billion?

Mr. SEIDMAN. At $500 billion, it would gross out at $100 billion. Now, those are all rounded estimates.

Mr. MOODY. Right. You are asking, you are asking for $50 billion plus another $18 billion in working capital; are you asking for $68 billion, or are you asking for $50 billion plus $50 billion?

Mr. SEIDMAN. No. We are saying we need another $50 billion to cover the losses that we can see ahead of us, of which we need $30 to $40 billion in the fiscal year coming up; and we are saying that we need working capital in the year coming up of $50 to $60 billion.

Mr. MOODY. $50 to $60 billion in working capital?

Mr. SEIDMAN. That's right. That is separate. Unfortunately, there are too many fifties, but that is separate.

Mr. MOODY. OK. So it is $50 plus $50 billion.

Mr. SEIDMAN. Yes.

Mr. MOODY. What is the $18 billion based on?

Mr. SEIDMAN. That's the first quarter.

Mr. MOODY. That's the first quarter. Now, as a basic principle, it seems to me that it is pretty commonly accepted that it is alright to borrow for an asset with a future life and a future income stream associated with it. Borrowing is an accepted practice both in public and private sector activity. I was taught in ECON 101 you don't go out and borrow for a dead asset that has no future income

stream to it. And unless something is changed, I think that is a pretty sound principle; you don't borrow for something that is behind you, and then you can't recover on a net basis—that is a loser, not a winner.

Do you agree that we should borrow to cover past losses? Do you want to expound on that?

Mr. SEIDMAN. We are borrowing the money to pay depositors. The money that we are borrowing is to pay depositors; we are just putting the assets up for security, if you will. That is why I say it really does not make much difference because it is all the Government's liability anyway.

But there was great concern that our institution would go out and create its own borrowing the way the Bank Board did in 1988, and they wanted to limit us so we couldn't do that. So they put these limitations in. But the fact of the matter is we are just borrowing to pay depositors, and since the only thing we've got are assets in these institutions, we have offered them security for whatever good that may do.

Mr. MOODY. Let me explore that. Yes, we are in one sense borrowing to pay depositors. We are also borrowing to replace assets that went dead.

Mr. SEIDMAN. Yes——

Mr. MOODY. We are borrowing to cover assets because those assets were pledged against depositors' claims.

Mr. SEIDMAN. We are simply saying that when we sell those assets, we'll pay back whatever we can.

Mr. MOODY. Right. But another way to look at it is that we are borrowing to buy up assets which are not valuable—which were collateral, which has eroded in value.

Mr. SEIDMAN. I would agree with you. In ECON 101— it is a terrible thing to do—but you don't deal there with what we are doing, which is salvaging insolvent institutions.

Mr. MOODY. No; I understand. My point is wouldn't it make more sense to borrow if we have to borrow for the assets that have a future life to them, and not borrow for assets that basically are obligations of fixed cost.

I am asking a philosophic question, Mr. Seidman. Do you think borrowing is the way to go?

Mr. SEIDMAN. If the Government had the money, I would recommend they give it to us without borrowing. But the only way they can get the money is to borrow it.

Mr. MOODY. No. We could raise taxes. We are going to raise them anyway to pay the borrowing costs. I mean, you are raising taxes one way or the other. The question is—if the Government doesn't have a fixed amount of money, it is going to have to go and get it, whether we borrow and get it later, or whether we get it now. So it is not a tax-raising versus yes or no question. The only question is when do we raise the taxes.

I'm asking a very philosophic question, and there is no magic answer to it.

Mr. SEIDMAN. Well, I think that comes down to a question of the whole way the budget should be handled and all the rest. Frankly, I have been so buried in my little end of the business that I haven't spent much time on that, and I really don't have an answer.

Mr. MOODY. Do you support the way FIRREA was structured with the mix of on-budget/off-budget borrowing combination?

Mr. SEIDMAN. I thought that was a good compromise, yes.

Mr. MOODY. Politically or economically meritorious?

Mr. SEIDMAN. Meritorious politically.

Mr. MOODY. Politically meritorious.

Thank you very much.

Mr. PICKLE. Mr. Pease, did you wish to ask questions?

Mr. PEASE. Yes, thank you, Mr. Chairman.

Mr. Ryan and Mr. Seidman, let me echo the comments of other members about the value we place on your services and the appreciation we have for it.

Both of you, in response to questions and in your testimony, have said that if the economy turns down, the cost of this rescue operation will go up, and I think that it is axiomatic that it will, and it is not particularly helpful to us. If we were to have a downturn of the magnitude of the 1982 recession, how many more institutions which are now, for example, in group III would move into group IV, and do you have even any range of the additional financial obligation that we might incur with a recession lasting a year, a year and a half, of the magnitude of the 1982 recession?

Mr. RYAN. Mr. Pease, I guess I can discuss the impact that that type of recession could have on our existing thrifts by saying that our job, at least the way I view my job, is to look at the condition of the industry at present and to identify trends by reviewing their record over a quarterly basis. But we are not in a position to do any modeling as to impacts that different economic scenarios may have on the institutions.

That type of modeling is done by the Treasury and by OMB, and I believe by GAO. So I am not in the position to give you any forecast to what one economic situation would have on the thrift industry or another.

Mr. PEASE. Mr. Seidman?

Mr. SEIDMAN. We probably could do that modeling, but I don't have much faith in those models, and of course, it depends whether we have a recession with inflation, without inflation, whether interest rates go up or down, all kinds of things. So I think that it is very hard to predict.

I can tell you that if we have a recession like that there will be more failures than we now estimate.

Mr. PEASE. Well, again, that is entirely predictable.

Let me ask a question that perhaps you can give a direct answer to. My constituents are under the impression that all this money that it is costing us for the bailout is somehow going to the owners and managers of the failed thrifts, and I point out to them that that is not the case, that the money is being expended so that we can keep depositors from losing their funds. Not all of the money goes directly to depositors. Some of it goes to induce healthy institutions to acquire unhealthy ones and save either the trouble of paying out deposit insurance.

Can you give me some idea of what proportion of the money we are spending goes directly into deposit insurance to individual depositors versus how much is being used to induce healthy institutions to buy unhealthy ones?

Mr. SEIDMAN. In recent years, we have not provided any funding for open thrift assistance, so the answer is 99.9 percent is going to depositors.

Mr. PEASE. So you are directly writing checks to depositors in 99 percent of the cases.

Mr. SEIDMAN. Either that or finding some other way for another institution to take them over, yes.

Mr. PEASE. Well, that's what I mean. You are finding a way for other institutions to take them over; therefore you don't have to pay out the insurance.

Mr. SEIDMAN. Well, we give the money to the institution for taking over the liabilities instead of giving the money directly to the depositors. It is the same thing.

Mr. PEASE. Well, it amounts to the same thing, except it is not a correct statement for me to say to my constituents who ask, this money is being used to pay off the depositors, because it is not, really. So how much is being used directly to pay off depositors?

Mr. SEIDMAN. Well, it would be a small percentage. I think you would probably do better if you say the money is being used to assure depositors get their money.

Mr. PEASE. That's a distinction I'll try to remember.

What action, Mr. Seidman, does Congress need to take in the next 4 weeks before we adjourn to meet your additional requirements that you have outlined in your testimony this morning? What legislative action do we need to take?

Mr. SEIDMAN. I think you need to take into consideration my testimony and provide us with the funding that we have requested.

Mr. PEASE. Would that be a direct appropriation? We would have to appropriate the money?

Mr. SEIDMAN. Yes.

Mr. PEASE. Would we have to change any substantive legislation?

Mr. SEIDMAN. The only suggestion I have made is that it might be wise to change the FIRREA legislation to allow us to borrow against 100 percent of asset value, but that doesn't have to be done before you adjourn; that could be done early next year.

Mr. PEASE. Thank you.

Mr. PICKLE. Mr. Russo.

Mr. RUSSO. Thank you very much, Mr. Chairman.

Mr. Seidman, I don't know if this is good news or bad news, but I certainly hope you stay there for as long as it takes to straighten it out because I find you to be a very frank and straightforward individual.

Mr. SEIDMAN. Thank you.

Mr. RUSSO. And I think that is important because I think in the past we haven't had that kind of straightforwardness from people who come before us and testify. In fact, I have a Wall Street Journal article which it talks about the 1988 deals, and as you may recall, last year I attempted to make changes in those deals. The chairman of the committee felt that it was retroactive and indicated that he would not accept an amendment that would go back and undo deals that were made between two private people.

But the problem that we have and I think the problem that Mr. Dorgan has is that we were told then by Danny Wall, who was the Chairman of the Federal Home Loan Bank Board, that those deals

took care of the worst of the thrifts and would only cost us $39 billion.

The FDIC study indicates that those so-called 1988 deals are going to cost between $90 to $95 billion. I think what we are concerned about is that those individuals who make these kinds of deals to sell off the assets or sell off the savings and loans at least furnish us with honest numbers so that we can make an intelligent decision as to whether or not we want to go along with those deals.

My concern is if we were to undo those deals is it possible that it could cost us more money in the long run if we, for example, took back the tax benefits, which then may trigger those institutions going into insolvency, which would put them back in your lap and cost us more money to bail out.

Is that a possibility?

Mr. SEIDMAN. It is a possibility. I don't think it is a likelihood. I think it likely wouldn't cost us much different. In other words, if those institutions failed because we exercised our options, I don't think it would increase the cost much. But if the Government reneges on contracts which are legal and binding, we are not going to be able to sell all the other things we are talking about because who wants to do business with somebody who is going to renege on a contract without having a legal reason.

Mr. RUSSO. So is your recommendation that we do nothing on those deals, just hopefully in the future——

Mr. SEIDMAN. No. I think I have stated that I think the Congress ought to provide us the funding to exercise the options under those deals, which could save $3 to $4 billion, and that we ought to then try to go back and see if we can renegotiate those deals so we actually do not have to spend the money.

Mr. RUSSO. As I understand how those deals were originally put together, the Federal Home Loan Bank went out and sought people to purchase some of these thrifts and offered them very good benefits and good tax breaks as I understand. In fact the Government did most of the enticing, as I understand it—or would you say——

Mr. SEIDMAN. Well, it has certainly been alleged that the Government enticed people into the deals, but——

Mr. RUSSO. Well, from your observation of it.

Mr. SEIDMAN [continuing]. It was well-known that the deals were available. I mean, the rush past my office to get up the block to get those deals, there were a lot of people running by us. We had things for sale, too, but we didn't have the tax benefits.

Mr. RUSSO. But the bottom line is it was the Government that made the sweetheart deals, not the people who came and took advantage of the sweetheart deals.

Mr. SEIDMAN. That is certainly true.

Mr. RUSSO. OK. Let me just ask you this. One of the concerns I have is that when you look back at the problem with the savings and loan industry, in my mind it was created basically by the Fed policy in the late 1980s, when the Fed decided all by itself that they were going to tighten the money supply to get a handle on inflation. When that was happening, interest rates went way up, and then the savings and loans were sitting there, saying, basically, look, we can't compete because everybody else is getting the

highest interest rates, so you have got to give us the opportunity to go out there and do the job.

Now, here we are again—the Fed has a policy now of higher interest rates again; you can't sell some of the commercial real estate because of the interest rates. Do you think the Fed ought to do something about its interest rate policy?

Mr. SEIDMAN. I don't think it is up to me to tell the Fed what to do, but I do know that the interest rates that affect us most importantly are long-term rates, not short-term rates.

Mr. RUSSO. What do you think of Kennedy's bill—pay the money up front?

Mr. SEIDMAN. I just spend the money. I really haven't looked at—you gentlemen are looking at a vast array of demands, and how you raise it and so on is fortunately not within my area of expertise.

Mr. RUSSO. That's why I like you as a witness, Mr. Seidman. You don't pull any punches. You are a lot like me.

Thank you very much, Mr. Chairman.

Mr. PICKLE. Mr. Seidman, I have a few questions I want to ask you.

When you appeared before this committee early this year, you said that you needed more time to gear up for this very important task and that you would be fully complemented with personnel to be at full stride by this fall, early fall. It is now early fall. Are you fully complemented with people in the various positions to go full stride now into this operation?

Mr. SEIDMAN. We have made a lot of progress. I wouldn't say we are fully ready, but we are approaching the number of people we need.

Mr. RUSSO. Well, if you are approaching it, are you confident that you have enough personnel now to really start carrying out the objectives?

Mr. SEIDMAN. No, we don't have enough in the legal area. We are going to have to hire a considerable number of extra people in the legal area. And we have some sales areas where we are going to have to hire people. So it is going to take more people than we have now. But we have our substantial force in place.

Mr. PICKLE. Well, then, if you have a substantial force, and you are generally prepared, then we should expect to go full force ahead.

Now, you have asked for working capital. When we first passed this bill, few people made any reference to working capital, but we accept the fact that it is part of the formula. But working capital is necessary in order for you to sell assets and/or manage the property; is that not correct?

Mr. SEIDMAN. That's true, and we did mention it very clearly in our testimony before the Senate Banking Committee.

Mr. PICKLE. Well, I'm not going to argue with you because we've looked back at that testimony, and we find the faintest question, but that's a moot question at this point.

The fact is, though, that you do have personnel, and you asked for $40 to $50 billion, and you are coming in now and asking for $50 to $60 billion more in working capital. Now, to get the working capital back, you have got to sell property.

Mr. SEIDMAN. Yes.

Mr. PICKLE. But if you don't sell the property you are paying out an awful lot of money of that working capital to manage properties. So the real test now is can you sell this property. Based on the figures you have shown me today, we have sold very little property—you have sold about $2.5 billion worth of property out of about $18 billion. You sold less than 8 percent. Now, that means that roughly 90 percent of the property is still on your books to be sold. So that is the critical question, isn't it—can you move the property? And the answer is that you have not moved the property, or only to a limited extent; it partly can be understood because it is a very difficult thing to gear up and go into operation, and the economy is not the best in some parts of the country where the assets are being held. But the fact of the matter is you have sold very little of the property.

Now, it seems to me that one of the most serious problems we face is whether we can put in place a mechanism for seller financing so that this property can move. In my part of the country, where many of these assets are held, people want to buy, but they simply can't find any way to have it financed.

Now, we have mentioned this subject before, and it is not an easy matter. But I want to ask you first, do you think that we should have in place some kind of a seller financing system that would be more workable than what we have today; do we need such a plan?

Mr. SEIDMAN. Yes.

Mr. PICKLE. All right. Do you have a recommendation of what the plan would be?

Mr. SEIDMAN. We have in general recommended that we be allowed to use financing that is common in the marketplace for the type of assets we are selling, in other words, do the same thing as private sector sellers do.

Mr. PICKLE. All right. You have recommended that, but that doesn't work. At least, you have got up to $2 billion that you can use for financing, but that depends on the sale of bonds in the secondary market, and there is no secondary market, so therefore it is not moving.

Now, if it is not moving—and it hasn't, and it probably won't—then you are saying we need to have some other kind of system. You would like to hope that the old system would work, but if it is not working then we've got to find some kind of system that will.

Mr. SEIDMAN. Well, we have been saying for many months——

Mr. PICKLE. Now the question is, sir, do you have a mechanism in mind that you think could be put in place for seller financing.

Mr. SEIDMAN. We don't need a mechanism. All we need is authority to sell assets on a finance basis, and the finance basis would be the same as private sector sellers are using. We don't need anything but the authority to do it.

Mr. PICKLE. Well, now, Mr. Seidman, you want authority, and I don't think the Congress is going to object too much. I think you still would be expected to come back to this committee to get the financing. But one proposal that has been made is through the OCC proposes that we require a certain percentage of down payment, say, 10 percent from the buyer, and use zero coupons as a means of guaranteeing as collateral that other 20 percent so that a

bank or savings and loan really would not be subject to more than about 70 percent of the risk.

Now, Mr. Ryan, that is the proposal that ostensibly has come from your department. Are you going to recommend that to be put in place?

Mr. RYAN. Just to clarify the record, Mr. Pickle, I am with the OTS, not the OCC——

Mr. PICKLE. Yes, OTS. I stand corrected.

Mr. RYAN. We have not made any specific proposal to the RTC board or the Oversight Board as to seller financing—although I am in favor of seller financing, I should say.

Mr. PICKLE. You do favor it. Well, do either one of you look with any kind of favor, or what would be your comment on a zero coupon approach?

Mr. SEIDMAN. I haven't looked at that, Mr. Pickle, so I cannot——

Mr. PICKLE. You have not?

Mr. SEIDMAN. I have not looked at that particular approach.

Mr. PICKLE. I am advised that you are expected to be recommending to the Oversight Board either this afternoon or tomorrow what would be your general approach. Are you prepared to make a recommendation to them tomorrow when you meet with them?

Mr. SEIDMAN. I am prepared to discuss it with them if they are ready to discuss it, yes.

Mr. PICKLE. Well, now, that is a rather——

Mr. SEIDMAN. And I told you my basic thought is that we ought to be able to behave as sellers in the same way as the private sector does, and offer financing that is comparable to that being offered by private sector sellers.

Mr. PICKLE. Yes, Mr. Seidman, that's if you had your "druthers", you'd "druther" go that way, but we don't have "druthers" right now; we've got $17 to $18 billion worth of assets, and they are not moving on the market, and something needs to be done. I don't think you expect the Congress at this point to enter into what you call a 100 percent Government guarantee. I have proposed that as an alternative because the Government might not be any worse off if it guaranteed a buyers loan. And after 1, 2, or 3 years, if the buyer couldn't maintain payments, the Government would get the property back and would be in no worse shape. There would be some cost, but relatively small.

But it is not to be expected that the Congress is going to approve something like that under the present circumstances unless you people give us some kind of a mechanism or vehicle that we can operate on. And for you to simply say, well, we can handle this if we're just given authority—well, I don't know whether the Congress would give you that authority. I think this committee is still going to ask that you come back to us. I don't think you are going to use zero coupons to borrow against your own assets without having some clearance.

But we ought to work together on it.

So I am just simply saying to you, sir, the property is on the books, the assets are not moving, people do want to buy and get it into private hands. As long as you hold it, it is going to cost the Government. You really get to the point sometimes that you are

better off to take some drastic step like financing than just continuing to manage the property instead of selling it.

So I would ask you, sir, in that area to make some kind of recommendation, give us some kind of suggestion of a good financing mechanism. It is needed. You have had a year now to put it into place. You had hoped and we had hoped that we could have moved these things earlier, but since they haven't, now is the time for us to look at some other vehicle. I think if we had that, you could sell property.

Now let me shift to another point, because I have not asked any questions this morning and had asked the chairman's questions.

Now, the question is this. We have some trouble in the Southwest area about performing loans. Earlier this year, this was a serious problem. People who had been meeting every payment every month for years and continued doing it were foreclosed on because RTC had an appraiser come in and reduce the value of the collateral on the loan.

You have closed out a lot of performing loans—people who are struggling, and the value of their collateral may not have been as high as you wanted, but they still wanted to hold that property—but RTC closed them out.

Now, generally speaking, I am advised that you have put out the word that RTC is to honor performing loans. Is that generally your policy?

Mr. SEIDMAN. Yes.

Mr. PICKLE. Do you have any comment, Mr. Ryan, with respect to that policy?

Mr. RYAN. Just that I concur with the chairman.

Mr. PICKLE. All right. Now, if you concur that we ought to be honored, are your people in the field following that policy?

Mr. SEIDMAN. Yes.

Mr. PICKLE. Well, sir, I have some examples I am going to give you, the cold facts where people think the policy hasn't been followed because of the downgrading of the collateral, and I want you to respond to them. Six months ago I had a lot of complaints—I have less now—but I still have instances where, because of quick foreclosure, we'll say, and because of the downgrading in value of property, these performing loans are not being honored. So when I have cases of them, I am going to send them to you.

Mr. SEIDMAN. I'd be pleased to look into them.

Mr. PICKLE. All right. Now, one other question and then I'll yield to other members because I want to come back to another point.

Senator Bentsen and I and Mr. Greg Laughlin had written to the RTC to ask you what your policy is with respect to selling land where endangered species are involved. This is not applicable all over the country, but in some parts of the country it is a very serious problem.

We have asked you what your policy is. Will you, the RTC, allow habitat groups or nature conservatory groups to come in and buy property as a first option? Would they have first crack at the property? Will you sell it for less to them than full market value, recognizing that under the law you contend that you are mandated to sell it at the highest price?

Mr. SEIDMAN. No.

Mr. PICKLE. Now, you maintain that you will work with these groups, and these groups are trying to work with you on some kind of basis. We are trying to find out, sir, what is your policy with respect to endangered species.

Mr. SEIDMAN. Our policy as mandated by Congress is to maximize the value and sell to the person who pays us the highest amount of money. But we are under mandate to work with the various agencies to ensure that people who have an interest in buying it for habitat and other such things have a chance to bid.

We have lots of property that I would love to sell for a lower price to groups that would use it for environmentally sound ideas, but we don't have that authority.

Mr. PICKLE. Well, I recognize that you are "mandated" to sell for the highest price. At the same time you recognize that it is not going to sell, and a piece of property that has endangered species involvement is not going to move, and we ought to work out something to help move this property and get it into the hands, in some cases, of groups who would benefit from it.

I don't want to and nobody wants to lower the value of properties down for all to be hurt, and that could happen. But it is also just as bad in reverse if the property is not selling and is just sitting there, no one's land values will increase.

So we need to know what is your policy. Now, your policy, you said, is to sell to the highest bidder, for the highest price. Will you recommend that we give you the authority to have discretion?

Mr. SEIDMAN. Well, I personally think it would be a good idea, yes, but it will undoubtedly cost some money. We are working with the fish and game authority now to try to get an agreed policy between us to ensure that they get their chance to buy property. And if the Congress would give us the ability to sell it at a lower price for those kinds of things, why, personally I would enjoy doing that; but we don't have the authority now.

Mr. PICKLE. But you said personally, your personal opinion is that we ought to be giving that authority. And we will entertain that proposition, and I would like to have the viewpoint of the Fish and Wildlife Service.

I recognize this has to be put together among different agencies, but we need to have an answer to what is our policy, and we have written you about a month or 6 weeks ago and have not received any answer. But I hope we are reaching a point where we can do that soon and get an answer.

Mr. SEIDMAN. I'll see that we get an answer promptly.

Mr. PICKLE. Now, the Chair is going to yield to Mr. Pease.

[No response.]

Mr. PICKLE. Mr. Guarini, do you have additional questions?

Mr. GUARINI. Yes, just a few short observations.

I just want to agree with you, Mr. Chairman. In New Jersey, we have the same experience as in Texas, that performing loans are not being honored; that refinancing has become most difficult for people in the real estate business; that banks are tremendously skittish about making any kind of loans and have tightened up their loan policies. And it is just further creating joblessness and difficulty in the economy so that the recession is being exacerbated

as a result of the banks refusing to loan moneys because of what is going on in the overall savings and loan system.

Do we have any way of knowing what the bottom of this savings and loan sinkhole is, Mr. Seidman? There is no way of estimating exactly how large the loss is; do I understand that to be so?

Mr. SEIDMAN. In the savings and loans?

Mr. GUARINI. Yes.

Mr. SEIDMAN. Well, we have given you our best estimates, $90 to $130 billion, and we think it is nearer the higher number. But what it will actually be will depend on future events.

Mr. GUARINI. So we have no way of knowing what the light is at the end of the tunnel.

Mr. SEIDMAN. I don't think anybody has ever been able to predict the future accurately.

Mr. GUARINI. Is there any problem that we have in the other part of our banking industry, with FDIC? Is there any weakening there? I know you——

Mr. SEIDMAN. We have 1,000 banks on our problem list, and in areas of the country where we are having real estate problems particularly, that number is increasing. So yes, we have some problems in the banking industry.

Mr. GUARINI. Do we expect that to be a double body blow to our economy if the commercial banks get in difficulty?

Mr. SEIDMAN. Certainly if banks are having difficulty that will affect the economy, although I don't think the difficulty we are having now is really as the result of banks. It is a result of a huge binge of excess debt and mainly construction. So we have built all the buildings for 1993 already, so there is nothing to do for a while.

Mr. GUARINI. And perhaps increased premiums would further stabilize the commercial banks?

Mr. SEIDMAN. Well, increased premiums will help the insurance fund, but they certainly aren't the total answer.

Mr. GUARINI. Should the capitalization be changed at all, or leave it as it is?

Mr. SEIDMAN. The capitalization for banks?

Mr. GUARINI. Yes.

Mr. SEIDMAN. Well, we have just agreed among the supervisors on what I consider the lowest possible minimum standard. I wouldn't be at all unhappy if it were raised.

Mr. GUARINI. Well, I wish you well in a very difficult task.

Thank you, sir.

Mr. SEIDMAN. Thank you.

Mr. PICKLE. Mr. Dorgan.

Mr. DORGAN. Thank you, Mr. Chairman.

I offered on the floor of the House the provision that prohibits savings and loans from purchasing junk bonds and requires divestiture of those which they now own. There was some controversy about that at the time. But I am wondering if I am a healthy savings and loan, that is, a savings and loan that is not now on your problem list—I can't buy junk bonds, and I used to be able to buy junk bonds, but what else can I do that seems inherently risky that might throw me onto that problem list at some point? Has Congress as a matter of policy and have the regulators as a matter of policy fixed the problems that have in part caused the collapse?

Mr. SEIDMAN. I think they have fixed those kinds of problems. Mr. Ryan may——

Mr. DORGAN. Well, let me ask the question about brokered deposits. If I am a healthy savings and loan in America today, and I am not part of your list as a troubled institution, am I able to use brokered deposits. If so, to what level am I able to use brokered deposits?

Mr. SEIDMAN. The answer is yes, you can use brokered deposits, but Mr. Ryan would have to talk about his supervision in that regard.

Mr. DORGAN. Mr. Ryan, could you answer the question? If I am not on the problem list and I want to use brokered deposits as a healthy savings and loan, is there any restriction on my use of brokered deposits, and if so, what is it?

Mr. RYAN. The restrictions placed on brokered deposits are principally through the rules which we have just recently adopted by the FDIC, which has to do with advertising and limitations as such.

As to the specific review of the liability structures of any individual institutions, we watch the level of borrowings either through brokered deposits or financings through the home loan banks.

Mr. DORGAN. I don't understand the answer because if I go out and get a bunch of brokered deposits into my institution, the question of whether my institution is healthy or not depends largely on what I paid for them and what I used the money for and the return I get on the money.

Is there a restriction on——

Mr. SEIDMAN. There is no restriction, but what we provide is that if an institution is going to grow rapidly, they have to notify us ahead of time so that we can determine whether or not that growth is appropriate and whether they are using brokered deposits in an unsafe manner.

Mr. DORGAN. But haven't we learned anything about brokered deposits? Shouldn't there be some restriction? I know there are restrictions with respect to troubled thrifts. But don't we understand that the brokered deposits kind of gave the impetus to these——

Mr. SEIDMAN. Well, brokered deposits were used for growth; that is really where all the problem came in the savings and loan industry. Brokered deposits, if you look at banks that failed, have not been a major factor at all.

Mr. DORGAN. But because they are restricted—aren't banks much more restricted in the use of brokered deposits than——

Mr. SEIDMAN. Well, they were not restricted, but what we did is we told banks that if they were going to increase their brokered deposits beyond 5 percent of their deposits, they had to notify us each month at what level their brokered deposits were, and if they went up, we immediately visited them. Since most of us don't like to see us arrive on the doorstep, that turned out to be a pretty effective control.

So we haven't had the problems in banks that we had in savings and loans.

Mr. RYAN. Mr. Dorgan, if I could just add one comment, one part of our supervision during our examinations was looking at the liability side of the balance sheet, and we are looking specifically at the level of deposits, the use of brokered deposits. We look at it also

in the context of the growth of the institution and the capital structure of the institution.

Mr. DORGAN. Well, I am sure Mr. Wall and others were doing that in the 1980s, but often they failed. I am just wondering if on the assets side of these institutions we have done what we should do to prevent them from getting in trouble again.

My question really goes to the issue of how conservative are these institutions going to be in our future. I notice that we still have policymakers here in Washington who are out pushing this homogenized, one-stop financial shopping center that Don Regan was talking about in the early 1980s. What is our policy with respect to savings and loans? Will the healthy ones become unhealthy because we have not dealt with the question of powers and risk assets in an appropriate way?

Mr. Seidman, I guess you are saying you think we have dealt with it in an appropriate way; is that correct?

Mr. SEIDMAN. I think between what FIRREA provided and what we provided by regulation that we have, yes.

Mr. DORGAN. Let me just ask if either of you see any irony in the fact that it falls on the shoulders of California officials to prosecute Keating, especially when we've got——

Mr. SEIDMAN. I am pleased to see anybody prosecute him.

Mr. DORGAN. But wouldn't you have been pleased to see the Federal Government initiate the action to deal with the fraud cases you are sending to them?

Mr. SEIDMAN. That would have been fine.

Mr. DORGAN. Some of us have been very impatient with the Department of Justice. We wonder where is the action, where is the aggressiveness, and where is the interest in prosecuting as aggressively as we think these cases should be prosecuted. Why on earth would a case like Mr. Keating's case, which is the hood ornament of the savings and loan scandal, fall to local officials to prosecute rather than the Department of Justice?

Mr. SEIDMAN. Well, I think that both State and Federal laws have been violated, in my opinion. I think that prosecution will undoubtedly come from both areas.

Mr. DORGAN. But does it tell us that State and local prosecutors are more aggressive than the Department of Justice, and if so, why?

Mr. RYAN. Can I comment on that?

Mr. SEIDMAN. Go ahead.

Mr. RYAN. I think your premise as to Mr. Keating is, respectfully, somewhat flawed. I think the Federal Government has done a very aggressive job dealing with Mr. Keating and with Lincoln. Just within the last couple of months we have started a very broad administrative action, requesting close to $50 million from Mr. Keating. We have been in court in Los Angeles. We have been up to the ninth circuit on two occasions. We now have financial statements from Mr. Keating.

We have been working very, very closely not only with the Federal but also the State governments, and by "we" I mean not only the OTS but the FDIC, the RTC. This is very much of a coordinated program.

The fact that the State prosecutor moved before the Federal Government on one part of a very broad criminal investigation is, from my standpoint, OK. It is Government action. Whether RTC or FDIC does it, or Justice, or the attorney general of California does it, as far as I am concerned that doesn't make a difference.

Mr. DORGAN. Well, Mr. Ryan, I certainly was not being critical of you and your organization in bringing administrative actions. As far as I am concerned, I have no criticism of that. You cannot prosecute for fraud. That is for the Department of Justice. And I have raised the question for months of whether Mr. Thornburgh is still on the job, and if so, what is he doing. And I know that it is easy to question and more difficult to show results, but I just raise the question why would we expect to see in the newspaper that State and local officials appear more aggressive in prosecuting fraud than the Department of Justice.

Now, I have had some experience in this when I was a State official, and we prosecuted in a number of areas and discovered that the Federal Government is very musclebound, particularly the Department of Justice. But it seems more than that in this case. We see precious little action, and we see a cheerleading meeting or two at the White House, but you don't see a whole lot of action out of Mr. Thornburgh and the Department of Justice.

Mr. Seidman appeared before us months ago and described a number of cases that have been sent over, and we would expect and hope that people are on the job, aggressive, and prepared to pursue the prosecutions for the fraud that exists. How else will the American people understand and expect that this can never be allowed to happen again if we do not aggressively prosecute the fraud that we find?

Mr. PICKLE. The time of the gentleman has expired.

Mr. Guarini, do you have further questions?

Mr. GUARINI. Yes, just one question.

I thank you for your patience, Mr. Seidman and Mr. Ryan. In regard to the brokered deposit question, to follow up from Mr. Dorgan, it seems to me that it was the weak savings and loans that were trying to attract investments and giving higher interest rates all the time to get those investments.

But there is another side of the equation, and that is the investment houses, why these banks were giving high attractive commissions with 1 or 2 percent for just making a telephone call on $50,000 or $100,000 was a very, very profitable business, and they can negotiate that kind of fee so the weaker banks may be inclined to pay larger brokerage fees to some of the investment houses.

Have you found this to be an abuse, and can it be corrected?

Mr. SEIDMAN. Well, it was an abuse clearly in the past.

Mr. GUARINI. Well, why aren't we doing something to curtail it, because as I understand the same thing is still going on that went on before—the weaker banks are looking at the investment houses to attract the moneys and getting big commissions for it.

Mr. SEIDMAN. Well, I don't think that—at least, we are not aware of much abuse now. In the first place, the undercapitalized institutions can't use brokered deposits, or can't increase brokered deposits anymore, and we have just put out the rules on that. With

respect to other institutions, they can't use them to grow without our investigating what they are doing.

To our knowledge, brokered deposits have not been a major problem in banking recently, on top of which the market itself no longer will go for brokered deposits of any term because they are afraid they'll be in a failed institution.

So I think it has to be closely monitored. Brokered deposits are clearly a potential problem. It was never intended that deposit insurance be used for that. I think it is reasonably under control now.

Mr. GUARINI. But shouldn't we cap the large fees that are going to investment houses so that they don't steer deposits toward the weaker banks?

Mr. SEIDMAN. Well, that gets into the whole question of whether fee regulation is the way to handle it. I would say that that is probably not the most effective way.

I think the effective way is to handle the institutions that are trying to use these deposits.

Mr. GUARINI. We capped insurance, though.

Thank you.

Mr. DORGAN. Well, would you yield to me?

Mr. GUARINI. Yes.

Mr. DORGAN. I understand that your point was that brokered deposits have not caused significant problems in banks, with respect to troubled banks; is that correct?

Mr. SEIDMAN. Recently, that's right.

Mr. DORGAN. Recently. That is not your testimony with respect to troubled savings and loans?

Mr. SEIDMAN. Well, I don't think it has been a problem in savings and loans. In fact, brokered deposits are financing savings and loans now. If we didn't use them, you would have to come up with a whole pile more money.

Mr. DORGAN. I don't understand that answer at all.

Mr. SEIDMAN. Well, the institutions that are out there are financed by brokered deposits to some extent—I don't know—about 30 percent——

Mr. DORGAN. Are you talking about the institutions that are not on your troubled list?

Mr. SEIDMAN. Institutions that are on his list.

Mr. RYAN. And not only on my list; they are institutions that are presently in the RTC, where for liquidity purposes we allow them to use brokered deposits.

Mr. SEIDMAN. Yes, we've got lots of brokered deposits that we are using, and every dollar that we don't use, we'll have to come up with Government financing.

Mr. DORGAN. Well, Mr. Chairman, my understanding—and all of us have different views, I suppose, of what has caused much of this problem—my understanding is that some person out there in the hinterlands who gets hold of a State-chartered or a federally chartered institution turned it into a roman candle with brokered deposits. I mean, how on earth did people have tenfold increases in a matter of a couple of years? It was brokered deposits.

Mr. SEIDMAN. They did, and that was a disaster, and it should not have been allowed, and they didn't have any capital standards, and they had unlimited access. That has been stopped.

Mr. DORGAN. So then, was brokered deposits part of the problem or not?

Mr. SEIDMAN. It was. I don't think it is the same as it was in the past.

Mr. DORGAN. Can we get some indication of what the level of brokered deposits is today; who is getting the fees for it?

Mr. SEIDMAN. Yes.

Mr. DORGAN. I mean, we don't have the time today but I'd like us to review that because I am not convinced that——

Mr. SEIDMAN. We'll tell you what they are in the banking industry and in the RTC; we have that, yes.

Mr. DORGAN. The whole scheme of brokered deposits and the fees by which they move is a scheme, it seems to me, that invites some serious problems in financial institutions. And I have said this to financial institutions themselves, and they have apoplectic seizures, because some of them are addicted to brokered deposits. But maybe the addiction ought to end.

Well, let's talk about that at some other time. I appreciate your testimony.

Mr. PICKLE. I appreciate that, Mr. Dorgan.

But brokered deposit is not a problem particularly now within your industry, is it, Mr. Seidman?

Mr. SEIDMAN. I don't think it is a problem now of any significance; that is correct.

Mr. PICKLE. I understand it was around 7 percent last year and might even be less now. But it was a practice in other years, and you have pretty well stopped that now.

Mr. SEIDMAN. It was a tremendous problem, and one of the causes of the savings and loan debacle, yes.

Mr. PICKLE. Mr. Seidman, I want to thank you and Mr. Ryan. We've got a very difficult problem, more difficult in the Southwest area perhaps than in others.

I think, however, it is not unfair to observe that in the conservatorship program that you have established, which is really the first step you have to take in these closings, as of June 30, there were 247 thrifts that were in conservatorship—65 in Texas, 15 to 20 in California, 23 in Louisiana, 15 in Illinois, 11 to 15 in Florida, and so forth.

It is not just a strictly regional problem. We would hope and pray it is not a national problem because that would really cause great financial problems for our Nation.

Now, you have come to us and you have asked for some $30 billion in funds to cover losses, and $50 to $60 billion in working capital. That is a lot of money. This committee wants to work with you because we recognize we've got a national problem. As you ask for this money, several members of this committee this morning have asked you for some response, particularly in the areas of what is your recommendation for seller financing, on performing loans, on endangered species, on the 1988 act, and other requests have been made of you this morning.

We want you to respond to that, but I think the chairman is going to ask that if you want these additional funds, we want answers on some of the questions we have asked. And I am sure that you will get that information or furnish that data that we are requesting.

So we appreciate your cooperation, and we will work with both of you gentlemen.

Thank you very much for your testimony.

Mr. SEIDMAN. Thank you.

Mr. RYAN. Thank you.

Mr. PICKLE. Now, the Chair will ask Mr. Bowsher and Mr. Reischauer to come forward.

The Chair welcomes Charles Bowsher, Robert Gramling, Gaston Gianni, and Molly Boyle.

I am also going to ask Mr. Robert Reischauer would you be willing to join this panel, so you don't have to wait, and we'll just do at all at one time?

Mr. REISCHAUER. Fine.

Mr. PICKLE. Thank you.

Now, Mr. Bowsher, I understand that you will be submitting testimony for the General Accounting Office. You may identify these other individuals and their positions with you, but I assume it will be your testimony. Then, by agreement with you and Mr. Reischauer, we'll combine this in one general panel so we won't have to extend our time further. The House is going to adjourn within the hour, so we'd like for you to proceed, Mr. Bowsher.

STATEMENT OF HON. CHARLES A. BOWSHER, COMPTROLLER GENERAL, U.S. GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY ROBERT GRAMLING, DIRECTOR OF CORPORATION AUDITS, ACCOUNTING AND FINANCIAL MANAGEMENT DIVISION; GASTON GIANNI, JR., ASSOCIATE DIRECTOR OF RESOLUTION TRUST CORPORATION ISSUES, GENERAL GOVERNMENT DIVISION, AND MOLLY BOYLE, ASSISTANT DIRECTOR, ACCOUNTING AND FINANCIAL MANAGEMENT DIVISION

Mr. BOWSHER. Thank you, Mr. Chairman.

Let me introduce my team. Molly Boyle, on my left, is in charge of our financial audits in the RTC. Gaston Gianni is our person who is looking at the RTC operations. And Bob Gramling heads up all our corporate financial audits.

What I would propose to do is just read the first 2 or 3 pages of my statement, and if you could make the rest of the statement a matter of the record, then we'd be pleased to answer any questions.

Mr. Chairman, we are pleased to be here today to discuss the Resolution Trust Corporation's funding needs and the cost estimates for resolving failed and troubled savings institutions which were released within the last few months by RTC, its Oversight Board, and the Congressional Budget Office.

In April, we testified before the Senate Committee on Banking, Housing and Urban Affairs on the need for additional funds to resolve the crisis. At that time, we stated that $325 billion would likely be needed over 43 years to pay for the Federal Savings and Loan Insurance Corporation's assistance transactions, the RTC res-

olution actions, the interest on REFCORP bonds, and the establishment of the new Savings Association Insurance Fund. We also stated that costs could reach $400 billion if additional savings institutions fail or $500 billion if the economy suffers a downturn and interest rates go up.

Since that time, more institutions have failed, and others have been predicted to fail, and the old FSLIC transactions are also expected to cost more.

So our revised estimate today of the total cost now ranges from $335 to $370 billion. That is contrasted to the $325 billion last April. These revised estimates are in line with our earlier predictions of how costs could easily reach $400 and $500 billion if the economy starts working against us.

Also, these estimates do not include any interest for Treasury borrowing.

We know of your interest in the total funding needs, and we plan to discuss these. However, we would first like to focus on a significant piece of the total, namely, the estimated cost for the RTC resolutions.

In our April testimony, we also stated that funding provided by the Financial Institutions Reform, Recovery and Enforcement Act of 1989, FIRREA, would not be sufficient for RTC to resolve known problem institutions. At that time, we estimated that RTC would need at least $100 billion, or $50 billion more than already provided by FIRREA, to cover resolution costs, administrative costs and interest on working capital. Recent RTC quarterly funding projections and resolution cost estimates independently developed by the Oversight Board, the RTC and CBO also show that RTC will need substantial additional funds to resolve the troubled institutions.

To address the shortfall, we recommended in our April testimony that the RTC Oversight Board and the Federal Deposit Insurance Corporation develop funding proposals for congressional consideration.

The administration has since proposed various general funding mechanisms, any of which will resolve RTC's immediate cash flow needs. But a funding decision, whether short term or long term, must be made soon. It is critical that RTC not run out of funds to resolve problem savings and loan institutions. While it is important that we remain vigilant as we oversee the cleanup of this unparalleled financial crisis, RTC must be given the funds to proceed expeditiously, since prolonging the operations of insolvent thrifts will add significantly to the ultimate cost.

During May and June, the Oversight Board, RTC, and CBO all produced estimates of the cost for resolving failed and failing savings institutions. Although we did not audit these estimates or examine the supporting detail for all the calculations, we did discuss the individual methodologies, the various assumptions and the financial data used with the responsible analysts at each entity. In general, we found that the Oversight Board, the RTC, and the CBO used similar methodologies and basically the same financial data to produce their present-value estimates of resolution costs. The resulting independent estimates are reasonably comparable with differences due in large part to the number of institutions considered to be resolution candidates by the various estimators.

Mr. Chairman, in sum and substance, we basically support the need for these additional funds for RTC, and as you can see, we are raising our estimates here to reflect higher resolution costs, moving up toward the $400 billion figure.

Mr. PICKLE. Thank you, Mr. Bowsher.

[The prepared statement and an attachment follow:]

STATEMENT OF CHARLES A. BOWSHER
COMPTROLLER GENERAL OF THE UNITED STATES

Mr. Chairman and Members of the Committee:

We are pleased to be here today to discuss the Resolution Trust Corporation's (RTC) funding needs and the cost estimates for resolving failed and troubled savings institutions which were released within the last few months by RTC, its Oversight Board, and the Congressional Budget Office (CBO). In April, we testified before the Senate Committee on Banking, Housing, and Urban Affairs on the need for additional funds to resolve this crisis[1]. At that time, we stated that $325 billion would likely be needed over 43 years to pay for the Federal Savings and Loan Insurance Corporation's (FSLIC) assistance transactions, RTC resolution actions, interest on Resolution Funding Corporation (REFCORP) bonds, and establishment of the new Savings Association Insurance Fund. We also stated that costs could reach $400 billion if additional savings institutions fail or $500 billion if the economy suffers a downturn and interest rates rise.

Since that time, more institutions have been predicted to fail and the old FSLIC transactions are also expected to cost more. Our revised estimate of the total cost now ranges from $335 billion to $370 billion. These revised estimates are in line with our earlier predictions of how costs could easily reach $400 billion and $500 billion if the economy starts working against you. Also, these estimates do not include any interest for Treasury borrowing.

We know of your interest in the total funding needs and we plan to discuss these at the end of our testimony. However, we would first like to focus on a significant piece of that total--the estimated cost for RTC resolutions.

In our April testimony, we also stated that funding provided by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) would not be sufficient for RTC to resolve known problem institutions. At that time, we estimated that RTC would need at least $100 billion, or $50 billion more than already provided by FIRREA, to cover resolution costs, administrative costs and interest on working capital. Recent RTC quarterly funding projections and resolution cost estimates independently developed by the Oversight Board, RTC and CBO also show that RTC will need substantial additional funds to resolve troubled institutions.

To address the shortfall, we recommended in our April testimony that the RTC Oversight Board and the Federal Deposit Insurance Corporation (FDIC) develop funding proposals for congressional consideration. The Administration has since proposed various general funding mechanisms, any of which will resolve RTC's immediate cash flow needs. But a funding decision, whether short term or long term, must be made soon. It is critical that RTC not run out of funds to resolve problem savings and loan institutions. While it is important that we remain vigilant as we oversee the cleanup of this unparalleled financial crisis, RTC must be given the funds to proceed expeditiously since prolonging the operations of insolvent thrifts will add significantly to the ultimate cost.

During May and June, the Oversight Board, RTC, and CBO all produced estimates of the cost for resolving failed and failing savings institutions. Although we did not audit these estimates or examine the supporting detail for all the calculations, we did discuss the individual methodologies, the various assumptions, and the financial data used with the responsible analysts at each entity. In general, we found that the Oversight Board, RTC and CBO used similar methodologies and basically the same financial data to produce present value estimates of resolution costs. The resulting independent estimates are reasonably comparable with differences due in large part to the number of institutions considered to be resolution candidates by the estimators.

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[1] Resolving The Savings And Loan Crisis: Billions More and Additional Reforms Needed (GAO/T-AFMD-90-15, April 6, 1990)

Defining the size and composition of the universe requiring resolution has always been a major stumbling block to producing comparable cost estimates. The Office of Thrift Supervision (OTS) has recently developed a method by which it measures the relative health of savings institutions and categorizes private sector thrifts according to their resolution probability. Before commenting on the specific cost estimates of the Oversight Board, RTC, and CBO, I will discuss OTS's assessment of the industry's health which provides a foundation for comparing these estimates.

DEFINING THE SIZE OF
THE RESOLUTION UNIVERSE

In July, OTS released industry data for the quarter ended March 31, 1990. In an attempt to define the universe of potential resolution cases, OTS divided the 2,505 remaining private sector thrifts into four groups based upon their ability to meet capital standards, their prospects for future viability, and the results of supervisory/regulatory examinations[2]. As shown in the attachment, the various groupings are categorized as follows:

-- Category I institutions comprise half the private sector industry and hold approximately 38 percent of its assets. This group is considered healthy and well capitalized. These institutions have a composite supervisory rating of 1 or 2 and are allowed reasonable flexibility to engage in activities without excessive regulation as long as they keep their strong capital and low risk positions.

-- Category II institutions, the "near-healthy", total approximately one quarter of the industry and hold more than 30 percent of its assets. These institutions currently meet or are expected to meet capital requirements. Category II institutions have composite supervisory ratings of 2 or 3 and are also allowed reasonable flexibility as long as capital continues to improve and risk remains low.

-- Category III institutions, about one-eighth of the total institutions holding 14 percent of its assets, are considered "troubled" with poor earnings and low capital. Many institutions failed the new OTS capital requirements and had to submit capital plans for approval. Most institutions whose capital plans are disapproved or who fail to follow their approved plans are relegated to Category IV. The OTS composite supervisory rating is usually a 3 or 4 and, as a result, these institutions are subject to more regulation and tracked very closely to ensure compliance with approved capital plans. The future viability of Category III institutions is clearly tenuous.

-- Category IV institutions, one-eighth of the total with 18 percent of the assets, are given little or no chance of continuing in the private sector. These institutions have composite supervisory ratings of 5, the worst possible. Since OTS is virtually certain that these institutions will be transferred to RTC, its overriding regulatory concern is to reduce the eventual resolution cost.

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[2]OTS has developed a rating system that reflects its evaluation of each institution's financial condition, compliance with laws and regulations, and overall operating soundness. Each institution is assigned a uniform composite rating based on an OTS evaluation. This overall rating is expressed through use of a numerical scale of "1" through "5" in ascending order of supervisory concern; "1" indicates the highest rating and least degree of concern, while "5" is the lowest rating and therefore highest degree of concern.

In addition to the four OTS private sector categories, a fifth group of savings institutions are currently being operated under government control while awaiting resolution. These conservatorship institutions were transferred to RTC because they had negative capital, were consistently unprofitable, and/or were operating in an unsafe and unsound manner. While under RTC management, conservatorships are operated under strict policies regarding asset sales, high risk investments and high cost funds.

By grouping institutions according to their likelihood of becoming resolution candidates, OTS has created a useful tool for defining the size and composition of the potential resolution universe and for producing comparable estimates. In general, current estimates produced by the Oversight Board, RTC and CBO can be examined in terms of these groups. We found that when the resolution universes are composed of the same categories of institutions being resolved over the same general time period, the resulting cost estimates are similar.

It is important to remember, however, that the condition of the savings industry is not static. Institutions will, and have, moved from one to another category based on new quarterly financial data. While the situation is fluid and assumptions have to be made as to how many from any category will ultimately have to be resolved, cost estimates reported in terms of these categories will make it easier to track and compare future estimates and the progress made toward resolving this crisis.

CALCULATING THE RESOLUTION COST

From our discussions with agency analysts and our review of available supporting documentation, we determined that, in general, the Oversight Board, RTC, and CBO used similar methodologies for calculating their present value resolution cost estimates. All three relied on December 31, 1989, financial data supplied to OTS by individual savings institutions as part of their quarterly reporting requirement. All three then used this data to calculate the tangible net worth (TNW)[3] of savings institutions and to determine a "mark to market" writedown in an attempt to properly reflect the value of the institutions' assets. The asset writedown was required because, as previous experience has shown with resolved institutions, the quarterly financial reports consistently and significantly underestimate asset losses.

Although the asset valuation approach was similar, the Oversight Board, RTC and CBO stratified or grouped the assets differently and applied different mark down percentages based on previous RTC experience, FDIC experience and/or the analysts' professional judgment. For example, the Oversight Board stratified assets into categories such as cash and securities, mortgage loans, and real estate owned. Based on the analysts' judgment, different loss ratios were applied to each category under three different scenarios representing low level, mid level, and high level losses on expected asset sales. RTC, on the other hand, relied on its actual resolution experience through May 1990 to calculate asset loss ratios by geographic region. The appropriate loss ratio was then applied to the unstratified asset population for that geographic region. When comparing comparable universes, much of the difference between the low and high ends of range estimates is due to the differences in asset writedowns.

Although the Oversight Board, RTC and CBO did not produce estimates for all of the categories of institutions identified by OTS, there is some overlapping among groupings which allows for comparison. As shown in the following table, the Oversight Board

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[3]TNW equals tangible assets (intangibles such as goodwill are excluded) minus liabilities.

and RTC estimated that, at a minimum, institutions in conservatorship and in Category IV would require resolution by RTC at a cost of between $89 billion and $114 billion. If additional institutions--most of which would be in Category III--are also considered probable RTC resolutions, the Oversight Board reports costs of between $99 and $132 billion. For a similar universe, CBO present value estimates range from $90 billion to $150 billion. The high end of CBO's estimate includes approximately $20 billion for the cost of delaying resolution and allowing failed and troubled thrifts to continue to incur losses for several years.

COMPARISON OF UNIVERSES
UNRESOLVED CASES ESTIMATES

(In Billions)	Category V*	Category IV	Category III	Category II	Category I
RTC $100	X	X			
Oversight Board (Low) $89 - $114	X	X			
Oversight Board (High) $99 - $132	X	X	X		
CBO $90 - $150	X	X	X		
CBO (High) $185	X	X	X	X	X**

* We added Category V which represents institutions in conservatorship.

** In CBO's high estimate, most of the additional institutions are from Category II, but some are from Category I.

In general, the estimates discussed above are limited to institutions in conservatorship and in the lower OTS categories expected to fail within the next 2 years and require RTC assistance. The number of these institutions ranges from about 700 to 1,000. However, CBO did not limit its loss projections to just RTC resolutions. CBO also estimated that an additional 800 institutions could be possible candidates for resolution after 1992 at a cost of $35 billion. In general, these institutions currently have tangible capital ratios greater than 3 percent of assets but, when their assets were subjected to CBO's mark-to-market writedown, they became insolvent on a tangible net worth basis. Most of these institutions are currently in OTS Category II (the "near healthy" that meet or are expected to meet capital standards) but some are from Category I (those considered healthy and well capitalized).

We caution you that all of the estimates we are discussing are subject to significant uncertainties, particularly those which consider currently healthy institutions as resolution candidates more than 3 years in the future. In general, cost estimate ranges represent the best and worst case scenarios based on currently available data using analysts' professional judgments. These scenarios reflect differences in the number of potential resolution cases, asset loss rates, and other factors. In addition to depending on highly uncertain general economic conditions that affect interest rates and real estate markets, the actual cost to ultimately resolve this crisis depends on a host of highly interrelated RTC specific factors including the manner of

resolution, the order and pace of resolution, and the actual timing of asset sales. A change in any one of these factors could have a significant effect on the final numbers. In particular, a recession could dramatically increase resolution costs.

Because RTC has control of institutions in conservatorship and can perform a review and valuation of their assets, the best available information on resolution cost relates to the very near future and can be found in RTC's quarterly operating plan. However, this information is available too late and covers too short a time period to serve as the basis for major funding decisions. Given that, the next best estimates are those discussed above for the institutions in conservatorship and Category IV that will require RTC assistance within the next 1 1/2 to 2 years. While these estimates probably provide the best basis for funding decisions today, the industry's condition is not static and the composition of the OTS categories is constantly changing. New estimates will therefore have to be developed periodically for managing, budgeting and funding purposes. To facilitate this process, RTC and the Oversight Board can do some things to improve future estimates and to make them less subject to potential misinterpretation.

While having several independent estimates may be desirable, RTC and the Oversight Board need to develop an "official estimate" for funding purposes based on the OTS categories, using a consistent methodology adjusted to reflect actual experience. Also, a more structured reporting format is needed to ensure the estimates are informative and understandable. Since FIRREA already requires a semi-annual report by the Oversight Board on RTC's funding needs, this estimate could be calculated and included as part of that report. The universe, assumptions, methodology, calculations, and any supporting documentation should be available to the Congress for review and comparison. Differing independent estimates could then be discussed and evaluated in terms of changes to the "official estimate."

In addition, RTC needs to develop a method for tracking asset valuation changes from the original resolution cost estimate through the sale. Asset writedowns are a major part of any estimation methodology and more accurate information on actual market value is necessary to refine future costs estimates. RTC has informed us that such a system already exists in conservatorships and is currently being planned for receiverships.

ADDITIONAL RTC FUNDING NEEDS

As we stated in our April testimony and as the independent estimates discussed earlier support, RTC will need at least another $50 billion in resolution funding to complete its task of closing failed thrifts in an orderly and expeditious manner. RTC projections for the fourth quarter of fiscal year 1990 show that at September 30, RTC will be only $1 billion under the obligations limit imposed by FIRREA. Without additional funding, RTC will then be unable to continue resolving institutions and the ultimate cleanup costs will increase.

Due to changes made in FIRREA concerning RTC funding sources, the obligations limit formula technically allows RTC an additional $18.8 billion in borrowing authority since Treasury funding is not explicitly mentioned as part of the formula. We reported this situation in our review of RTC's quarterly report of compliance with the obligations limit[4]. Recent testimony by Chairman Seidman and the Treasury Under Secretary for Finance indicated that RTC may take advantage of that technicality rather than run out of

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[4]Obligations Limit: Resolution Trust Corporation's Compliance as of March 31, 1990 (GAO/AFMD-90-101, July 27, 1990)

obligating authority. While this increase would allow resolution activity to continue into the first and perhaps the second quarter of 1991, it will not buy much more time than that. The Congress needs to raise the cap on the maximum obligations limit to at least $100 billion so that RTC can plan and budget for longer than the immediate future.

In July testimony, the Treasury Under Secretary for Finance outlined three approaches which might be considered for providing RTC with additional funds to cover losses:

-- a short term funding bill to keep resolution activity going into early 1991;

-- funding to cover estimated needs for some intermediate period; or

-- a permanent and indefinite appropriation to complete the job of resolving failed thrifts.

It is our opinion that providing short term financing through early 1991 may prove disruptive to the resolution process and be costly in time for both RTC and the Congress. Likewise, addressing the shortfall every three months or so would probably be disruptive. On the other hand, providing RTC with a permanent and indefinite appropriation would eliminate the note cap control specifically written into FIRREA to limit RTC's spending authority. It would seem important to retain FIRREA provided control mechanisms that are already in place and functioning. Therefore, we believe that the RTC should be given an additional $50 billion in resolution funding which would increase the obligations limit to $100 billion. This amount should allow RTC to operate for at least another year. RTC should continue to report on, and we will continue to review, its compliance with the limit.

In addition, we believe that all RTC funding should be on-budget. Off-budget financing has only added to the already too high costs of the crisis cleanup. Interest rates on REFCORP bonds issued since FIRREA's passage have ranged from approximately 1/4 percent to more than 1/3 percent above Treasury offerings. On borrowings of an additional $50 billion for resolutions, that rate differential translates into $125 million to $165 million a year in interest. Over 30 years, these higher interest rates would add $4 billion to $5 billion to the cost of RTC resolutions.

TOTAL FUNDING NEEDS

Up to this point, we have been talking about estimated losses or the costs for RTC to resolve failed and failing savings institutions--certainly a major component of the total cost to resolve this crisis. And thus far, the discussion has been on a present value basis--as if this were an investment decision and we could pay it off today. However, if the Congress is to make an informed decision concerning how to finance the resolution of this crisis, there are significant other costs that contribute to the total that must be considered. Because it is not possible to resolve all troubled institutions today, operating losses will continue to be incurred until the regulator closes them, the RTC will continue to incur costs as assets acquired from troubled thrifts are sold, and the regulators are continuing to pay interest and guarantee payments on FSLIC's assistance transactions. For these reasons, we have presented the total cost estimates on a cash basis.

As stated in my opening remarks, we estimated in April that the total cost was at least $325 billion, excluding general Treasury borrowing costs. We stated then that the estimates for RTC resolution costs and for FSLIC assistance transactions were likely to change and, as previously discussed, they have. To show the effect of the Oversight Board's new low and high resolution

cost estimates and to reflect new estimates for pre-1988 FSLIC assistance transactions and increased REFCORP interest expense, we now calculate that the total cost for the crisis cleanup is likely to be $335 billion to $370 billion, excluding Treasury financing costs. The Oversight Board estimates include the 700 to 1,000 institutions in conservatorship, Category IV and Category III. As you can see, we are approaching the $400 billion mark and, if the economy suffers a downturn and interest rates rise, we could easily reach $500 billion.

CONCLUSIONS

While many will want to debate the numbers and argue over whose assumptions and estimates are more accurate, we can not allow this to paralyze RTC's ability to resolve the problem institutions. Therefore, at a minimum, RTC's obligations limit should be increased and an additional $50 billion in resolution funds provided. These funds, which should be on-budget, should be sufficient for RTC to continue an aggressive resolution program for some time.

To ensure that the Congress receives the most current and complete information on which to base future funding decisions--both for RTC resolutions and for the total crisis clean-up--we have recommended that the Oversight Board and FDIC develop these estimates and report them semi-annually. Only the Oversight Board and FDIC have the necessary resources to accumulate and track the data necessary for preparing and updating such estimates.

ATTACHMENT

ATTACHMENT

SAVINGS AND LOAN INDUSTRY
CATEGORIES AND CHARACTERISTICS
(Dollars in Billions)

	Number of Institutions	Assets	Income 1st Qtr. 1990	TNW at 3/31/90	Capital Level	OTS Rating[1]
Category I "healthy, well capitalized"	1264	$404	$ .7	$26	6.4%	1&2
Category II "near healthy"	620	$326	$ .2	$13	3.9%	2&3
Category III "troubled"	311	$149	$(.3)	$1	2.1%	3&4
Category IV "likely to be transferred"	310	$195	$(.9)	$(3)	(1.4)%	5
Category V[2] conservatorship	350	$164	$(3)	$(31)	(19)%	N/A

Source: Office of Thrift Supervision Analysis of the Condition of the Thrift Industry (August 30, 1990) and RTC 1st Quarter Performance Data for Conservatorships (September 9, 1990). Figures are as of March 31, 1990.

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[1]These ratings are based on the Office of Thrift Supervision's MACRO (Management, Asset quality, Capital adequacy, Risk management, and Operating results) composite rating.

[2]We added Category V which represents institutions in conservatorship.

Mr. PICKLE. Mr. Reischauer, if you would go ahead now and make your statement to the committee.

STATEMENT OF ROBERT D. REISCHAUER, DIRECTOR, CONGRESSIONAL BUDGET OFFICE

Mr. REISCHAUER. Thank you, Mr. Chairman. It is a pleasure to appear before the committee this morning.

With your permission, I will submit my written statement for the record and use this opportunity to address four questions that relate to the savings and loan crisis.

The first of these questions is how much will it cost to clean up this problem over the 10 or so years that the Congressional Budget Office expects it will take to resolve the failed institutions and dispose of their assets. On a present value basis—that is, on a basis that converts future expenditures into today's dollars—the total cost associated with closing failed thrifts through the end of this century will be roughly $245 billion. Of this total, the cost of the Resolution Trust Corporation's activities will be about $150 billion; the cost of the Savings Association Insurance Fund's activities will be about $35 billion; and the cost of the Federal Savings and Loan Insurance Corporation's activities for its resolution fund will amount to roughly $60 billion.

Needless to say, there is a good deal of uncertainty about these estimates.

The second question I'd like to address is how will the savings and loan bailout affect the Federal budget. The answer to this question is quite complex. The Financial Institutions Reform, Recovery, and Enforcement Act provided the RTC with $50 billion to close or assist the sale of insolvent thrifts, but the RTC will exhaust these funds early in 1991—that is, fiscal year 1991. The RTC and it will also bump up against its obligation ceiling in the first month or two of the next calendar year. Clearly, as other witnesses have told you, the RTC must be given more resources before the Congress adjourns, or the pace of resolution will slow down and the ultimate costs of the savings and loan crisis will only escalate.

The effect of the RTC's net spending on the budget in 1991 and beyond will hinge upon whether the agency is constrained by the limits imposed by current law or some future law, or whether it receives additional authority to spend as much as is needed.

CBO assumed in its estimates that the Congress would provide sufficient additional Treasury funds so that the RTC is not constrained. Under this assumption, CBO estimates that the RTC's net outlays will amount to about $70 billion in 1991, $60 billion in 1992, and $13 billion in 1993. After that, the proceeds from asset sales should exceed the spending for case resolutions; the net outlays, therefore, will turn negative. In other words, the effect of the RTC will be to reduce the Federal deficit by an amount equal to about $30 billion in 1994 and $18 billion in 1995.

Of course, a good deal of uncertainty surrounds these numbers, for several reasons. The number of institutions that ultimately will be declared insolvent is unknown. The pace at which failed or failing institutions will be resolved is quite uncertain. The costs of resolutions are also quite unpredictable. Furthermore, it is clear that

the strength of the economy is likely to have an important impact on the ultimate costs of the savings and loan bailout.

The uncertainty that surrounds these cost estimates can best be illustrated by considering the variation that characterizes the recent estimates that Mr. Bowsher just mentioned.

In June, CBO projected that the RTC would need $70 billion in 1991, the figure that I just gave you. However, if resolutions proceed at their current pace, CBO estimates that the RTC might have outlays of $10 to $20 billion higher than that number.

Chairman Seidman in July suggested that the RTC might need $100 billion in spending authority in 1991; in its July estimates, the Office of Management and Budget suggested that the RTC spending in 1991 would be $63 billion, but even OMB acknowledged that outlays could be $30 billion above or below that figure.

The uncertainties surrounding the annual costs of the savings and loan bailout should be examined carefully when this committee considers extensions of the debt ceiling, as it will undoubtedly do either in the next month or sometime next year.

The third question I'd like to address is how should RTC's spending be handled under the Balanced Budget Act or any revision of that act that might come from the budget summit negotiations currently going on.

CBO strongly believes that the RTC's net outlays belong in the deficit because the budget should present a comprehensive summary of the Government's spending and revenues. But CBO also believes that it makes sense to exclude most of RTC's spending when gauging compliance with any set deficit targets that might be imposed on the budget situation over the next few years.

This is because RTC borrowing and spending exert little economic effect. The RTC only liquidate liabilities that the Federal Government already has. The economic effect of the savings and loan problem occurred when those liabilities were accrued.

Therefore, including volatile RTC net spending when determining compliance with deficit targets could lead to unintended and undesirable swings in fiscal policy.

However, if the thrift bailout costs were completely excluded from the process of correcting the deficit, it could give the misleading impression that thrift failures are irrelevant for long-term budget policy, which is clearly not the case. This concern could be accommodated by adopting somewhat more ambitious deficit targets over a period of years. Such targets might recognize the past erosion of the Nation's capital stock, which is attributable to the savings and loan mess.

The final question that I would like to address relates to how the unavoidable additional financing for resolving the savings and loan problems should be provided. Under FIRREA, over half of the initial $50 billion that was made available to the RTC came from off-budget REFCORP borrowing, which both disguised and increased the cost of the bailout. Fortunately, no one is advocating that this practice be continued. The administration has proposed that additional funding for the RTC be raised directly by the Treasury and not by raising insurance premiums, requiring additional payments from the Federal home loan banks selling more REFCORP bonds.

CBO agrees with this approach because it would both minimize the Government's costs and maximize the Government's flexibility.

The Treasury could provide the funds for working capital in either of two ways—through Treasury lending to the RTC or through direct appropriations. Under current law, the Treasury finances the RTC's requirements for working capital by borrowing the funds and lending them through the Federal Financing Bank to the RTC. The RTC, in turn, pays interest to the FFB, the arm of the Treasury that handles such transactions. In this way, the costs of financing asset acquisitions and sales are charged against the RTC's losses and can be tracked quite accurately. This procedure probably provides the RTC with an increased incentive to sell assets quickly.

Alternatively, because the RTC will need to rely on the Treasury to fund its future shortfalls, it is also possible to dispense with the FFB transactions and simply provide appropriations for all of the RTC's funding needs, whether for losses or working capital. Under this arrangement, no interest costs would be charged to the RTC for these funds.

Another issue relates to the nature and duration of the funding mechanism. In other words, should the RTC be provided with a small amount, sufficient to keep the agency going until the beginning of next year, or should it be provided with a larger amount, sufficient to cover a longer period of time, or should the RTC receive a permanent, indefinite appropriation so that the job of resolving failed thrifts could be completed without the delays that arise from legislative action as needed?

The uncertainty over the amount and timing of losses associated with closing hundreds of failed thrifts and the mandatory nature of the payments suggests that permanent indefinite funding for the RTC may make sense. This approach would provide the RTC with sufficient resources and flexibility to move at an optimum speed and would not force the agency to adjust its case load because of inadequate cash.

However, concerns about possible loss of congressional oversight and control can be raised when an agency is authorized to spend with no effective cap. One way to reconcile the objectives of RTC flexibility and congressional control would be to appropriate indefinite amounts but to limit the time period over which the RTC could exercise this authority—for example, to a 2-year period. The alternative to providing indefinite appropriations, of course, is to have the Congress again appropriate a specific amount to the RTC.

The uncertainties surrounding the estimate of future losses makes this a difficult task. If funding were inadequate, delays and uncertainty could result, as they have in the past, and add to the Government's cost.

Let me conclude by summarizing the main points that I have tried to make.

First, the cost of resolving the savings and loan crisis will substantially exceed the funding that has been provided so far.

Second, congressional action is clearly needed to provide additional funds to the RTC as soon as possible in order to prevent delays that would boost the long-run costs of resolving failed savings and loans.

Third, the cheapest and quickest source of funds is the Treasury.

Fourth, all RTC spending should be onbudget.

Fifth and finally, the annual spending for the RTC should be excluded when assessing whether the Balanced Budget Act targets have been met. But these targets could be made more ambitious in an effort to compensate for the damage that the savings and loan debacle has wrought on the Nation's capital stock.

Thank you.

[The prepared statement follows:]

Statement of
Robert D. Reischauer
Director
Congressional Budget Office

Mr. Chairman, I am pleased to appear before the Committee this morning to discuss several issues related to the funding needs of the Resolution Trust Corporation (RTC). I will use this opportunity to discuss the projected costs of resolving the savings and loan (S&L) crisis. These projections are elaborated in CBO's summer report, *The Economic and Budget Outlook: An Update*. I will also review the economic effects of federal expenditures to protect depositors of failed thrifts. Finally, I will outline various options for financing the costs of resolving this problem.

PROJECTED COSTS OF RESOLVING THE SAVINGS AND LOAN CRISIS

CBO estimates that the cost of cleaning up thrift institutions--other than those already resolved before passage of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA)--would total about $120 billion if the crisis could be resolved literally overnight. (About $100 billion would be borne by the RTC, with a caseload of about 925 institutions; and the remaining $20 billion by the Savings Association Insurance Fund (SAIF), which is expected to handle nearly 800 more institutions.) This cost estimate is uncertain, and the true cost easily could vary from this estimate by $30 billion in either direction.

The government will not resolve the S&L crisis overnight--not just because the RTC does not have the cash resources, but also because the government faces human resource and other constraints in carrying out its tasks. As a result, CBO expects that it will take at least 10 years to resolve these institutions and dispose of their assets. In present value terms, we project the total cost associated with closing failed thrifts through 2000 to be nearly $250 billion. Of this total, we estimate the cost of the RTC's activities to be about $150 billion and that of SAIF's to be $35 billion. Using the same methods, the present value of the Federal Savings and Loan Insurance Corporation (FSLIC) Resolution Fund, which is charged with making insurance payments for losses incurred prior to FIRREA, amounts to $60 billion.

Budget Projections Through 1995

FIRREA provided the RTC with $50 billion to close or assist the sale of hundreds of insolvent thrift institutions. The $50 billion was intended to pay for deposit insurance losses that would never be recovered. The losses clearly will exceed $50 billion, and the RTC will exhaust its available funds early in fiscal year 1991. If the RTC is allowed to run out of money, over 600 insolvent thrifts will be left unresolved, and the ultimate costs of the savings and loan crisis will only escalate.

Not only is the RTC running out of funding to pay for insurance losses, but also it faces another constraint. It is currently borrowing from the Federal Financing Bank (FFB) to cover the temporary cost of acquiring assets from failed thrifts until the assets are sold. Section 501 of FIRREA restricts RTC borrowing, though there is some ambiguity as to the limit. The conference report and letters from the Chairmen of the Banking Committees indicate the committees intended that the obligations issued by RTC not exceed 85 percent of the fair market value of its noncash assets, plus available cash and the remaining balance of borrowing authority from the Resolution Funding Corporation (REFCORP). The wording of the statute, however, would allow the RTC to borrow $18.8 billion in addition to the limit described in the conference report. The $18.8 billion represents the amount of Treasury funding made available to the RTC in 1989.

Because of the uncertainty as to Congressional intent, the Secretary of the Treasury has indicated that the RTC will not use the authority to borrow the $18.8 billion without notifying the Congress. If legislation authorizing

additional funds for the RTC is not enacted around the beginning of the fiscal year, under current law the RTC could borrow $18.8 billion from the FFB and $12 billion from REFCORP (or, temporarily, an equivalent amount from the FFB). The Administration has indicated that this $30.8 billion, plus proceeds from asset sales, would be sufficient to continue the RTC's operations until the end of calendar year 1990.

Clearly, the RTC must be given more resources. Resolving the savings and loan problem is not a discretionary activity; the government is legally required to fulfill its deposit guarantees. Failure to provide sufficient resources in the past has delayed the cleanup and led to increased costs at the time of resolution; this is also the case today. The government continues to insure deposits in a savings and loan industry that is crowded with weak institutions. Marginal institutions that remain in business continue to incur losses by paying greater returns on their deposits than they are earning on their assets. It may be cheaper to close or merge insolvent thrifts quickly to prevent future losses.

The effect of the RTC's net spending on the budget in 1991 and beyond hinges upon whether the agency is constrained by the limits imposed by current law or receives additional authority to spend as needed. Assuming that the Congress provides sufficient additional Treasury funds so that the RTC is not constrained, CBO estimates that the RTC's net outlays would be $70 billion in 1991, $60 billion in 1992, and $13 billion in 1993. By 1994, the proceeds from asset sales should exceed the spending for case resolutions, and net outlays are expected to drop to -$30 billion and, by 1995, to -$18 billion. These figures are summarized in Table 1.

TABLE 1. PROJECTIONS FOR THE RESOLUTION TRUST CORPORATION, WITH SUFFICIENT RESOURCES (By fiscal year, in billions of dollars)

Outlays	1990	1991	1992	1993	1994	1995
Insurance Losses	35	41	32	28	4	3
Working Capital						
Asset acquisition and repayable advances	30	52	52	19	0	0
Receipts from asset sales	-1	-9	-24	-34	-34	-21
Repayment of advances	-12	0	0	0	0	0
Proceeds from Resolution Funding Corporation	-16	-14	0	0	0	0
Interest and Administrative Expenses	a	a	a	a	a	a
Total	36	70	60	13	-30	-18

SOURCE: Congressional Budget Office.

a. Administrative costs included in the budget are projected to be $200 million to $300 million a year. Administrative costs associated with institutions in RTC receivership are not included. Interest costs reflect only the payments from the RTC to the Federal Financing Bank, an intrabudgetary arrangement stemming from the RTC's working capital agreement. The projections assuming unlimited resources dispense with this intrabudgetary arrangement, and all debt service costs are presumed to be borne directly by the Treasury.

Uncertainties in the Estimates

A great deal of uncertainty surrounds these estimates of the costs of resolving the savings and loan crisis. No one can say for sure how many thrifts the regulators will declare insolvent, how fast the RTC can resolve failed or failing institutions, or what the costs will be. The recent surge in oil prices is likely to affect interest rates and economic growth, although the precise effect on the RTC's spending and asset sales is unclear. While there is much uncertainty about where oil prices will level off, higher oil prices could help the local economies of oil-producing states, where many of the failed S&Ls are located. If the economies of the oil-producing states do pick up, it could mean lower costs of resolution and increased sales prices for real estate assets held by the RTC. But oil price increases will slow the pace of overall growth for the U.S. economy, resulting in more depressed real estate and mortgage markets nationwide than would otherwise be the case. The high degree of uncertainty concerning the future path of interest rates and the Federal Reserve's role in influencing that path makes predicting a future scenario even more difficult. In light of these offsetting considerations, whether the recent Iraqi invasion of Kuwait will increase or decrease S&L resolution costs is unclear at this time.

As a result of these and other uncertainties, estimating the timing of outlays and asset sales is highly imprecise, even if the RTC receives sufficient funding. For example, in June CBO estimated that the RTC's net outlays for the current fiscal year, which ends this month, would be $36 billion. Subsequent to the completion of CBO's estimate, the RTC Oversight Board approved a spending plan that could result in net spending in 1990 of about $66 billion. In July the Office of Management and Budget (OMB) predicted that the RTC's net spending would be $57 billion. Net outlays through July were $35 billion, and we now estimate that 1990 outlays will be in the range of $45 billion to $55 billion.

The estimates for 1991 also show a wide range. CBO's estimate prepared in June projected the RTC would need $70 billion. If 1991 resolutions proceed at the same pace of resolutions in 1990, RTC outlays could be higher by $10 billion to $20 billion. In July, Chairman Seidman suggested that the RTC might need an additional $100 billion in spending authority in fiscal year 1991. The OMB July estimate for 1991 suggests that the RTC would need $63 billion. These varying estimates underscore the great uncertainty about RTC spending. OMB states in its Mid-Session Review that outlays in individual years might be $30 billion higher or lower than projected.

ECONOMIC EFFECTS OF EXPENDITURES TO PROTECT THRIFT DEPOSITORS

Although policymakers disagree about how the budgetary consequences of the savings and loan crisis should be handled, most experts agree that RTC outlays do not affect the economy in quite the same way as other government spending. Unlike a benefit check, salary payment, or a purchase of military hardware, deposit insurance payments do not represent current income to their recipients. Depositors do not become wealthier when their savings and loan institution is closed or merged by the government. They are exactly as well-off as before, undergoing only minor changes in their banking arrangements. Thus, the year-to-year outlay fluctuations related to the S&L problem depicted in CBO's baseline paint a seriously misleading picture of the government's current impact on the income and production markets of the economy.

Similarly, RTC spending has only a limited impact on financial markets. A large fraction of federal borrowing is currently done on behalf of the RTC. Nearly all the money that the government raises for this

purpose is directly recycled in the financial markets, as recipients deposit the funds in new accounts or invest them in other assets. The government's borrowing does not reduce the funds available to other borrowers, and there is little reason for it to boost the general level of interest rates.

Long-Term Effect of Thrift Industry Losses

Over a longer time span, thrift industry losses have had definite implications for the economy and for the distribution of resources. The availability of deposit insurance helped to spur certain types of spending. For much of the past decade, savings and loan institutions made wasteful loans backed by their insured deposits. Borrowers and their suppliers benefited, thrift managers and owners were subsidized, and the wealth of depositors was protected from loss even as many earned unsustainable rates of return. The nation's capital stock was diminished, however, as bad loans and fraud diverted the savings of depositors from more productive uses. This economic impact occurred in the past, when these unproductive investments were made. But as long as problem S&Ls remain unresolved and the regulatory environment is not changed, these economic impacts can continue to occur. Both past and current misplaced investments will affect the productivity of the economy for many years.

Regional Effects of RTC Spending

It is difficult to identify regions as winners or losers from the S&L bailout. Although the high-flying institutions that now require resolution were geographically clustered, all regions of the country shared these economic effects--particularly as nationwide capital markets imply that both deposit-taking and lending effectively cross borders. Many residents of the Northeast and Midwest benefited from high-yielding deposits at failed S&Ls in the Southwest. While empty structures are concentrated in the Southwest, the RTC's list of assets shows clearly that a sizable proportion of the construction projects financed by the failed S&Ls took place outside their local markets as well. Thus, both the economic costs and benefits are widely distributed across geographic regions. Moreover, everyone benefits from the fact that the deposit insurance system remains intact despite the buffeting of the 1980s.

RTC SPENDING AND THE BALANCED BUDGET ACT

The uncertainty and volatility of RTC spending and the treatment of REFCORP have raised questions about the proper treatment of outlays to resolve the S&L problem. Outlays of the RTC belong in the deficit because the budget is meant to present a comprehensive summary of the government's spending and revenues. But it makes sense to exclude most of RTC spending in gauging compliance with the Balanced Budget Act targets. This is because RTC borrowing and spending exert little economic effect because they only liquidate liabilities that the federal government already had. The economic effects are caused by the industry's losses and the consequent accrual of federal liabilities for deposit insurance, not by the government's actions to liquidate these liabilities. Thus, whatever the economic effects of the thrift bailout are, cash outlays for deposit insurance do not measure them in a timely fashion. Accordingly, including spending for the thrift bailout in determining compliance with the Balanced Budget Act's deficit targets could lead to unintended swings in fiscal policy. It could also present budget policymakers with incentives for further manipulation of the accounts.

However, excluding the thrift bailout's costs (except for the interest payments on the public debt) from the process of correcting the deficit gives the misleading impression that thrift failures are irrelevant for long-term budget policy. To many policymakers, such an approach amounts to

consigning yet another budgetary problem to future generations. They fear that unless the nation taxes itself or otherwise faces squarely up to the costs of the thrift crisis, it will not undertake the reforms of the regulatory structure and the deposit insurance program that will be necessary to ensure that similar losses will not happen again.

One way to accommodate these views would be to raise the targets for national saving--that is, lower the target deficits over a period of years--by amounts that recognize the past losses in the capital stock. With these somewhat more ambitious deficit targets, the actual year-to-year spending would be excluded from the assessment of whether the targets are being met. And yet the past losses associated with the savings and loan problem would not be swept under the rug.

OPTIONS FOR FINANCING THE COSTS OF RESOLVING THE S&L PROBLEM

FIRREA tapped several sources for the initial $50 billion provided to the RTC: $1.2 billion from the Federal Home Loan Banks (FHLBs), and $48.8 billion in government financing. Of the latter amount, $18.8 billion came directly from the Treasury, with spending recorded on budget, and $30 billion is to be raised by the Treasury through REFCORP, with no net effect on the budget. (The Treasury arranges and conducts the sale of REFCORP securities, determines the amount and timing of the issues, and approves the use of the proceeds.) Although all the spending is on-budget, the money raised by REFCORP is shown in the budget as offsetting collections, thereby offsetting the spending that it finances. The off-budget borrowing of funds through REFCORP both disguises and increases the cost of the bailout.

Source of Funds

The Administration has proposed that additional funding for the RTC be raised directly by the Treasury, and not by raising insurance premiums, requiring additional payments from the FHLBs, or selling more REFCORP bonds. Industry sources, including the FHLBs and savings and loan institutions, have been sufficiently drained that to seek more cash from them might seriously jeopardize the viability of the healthy portion of the thrift industry. Off-budget funds raised by selling REFCORP bonds are less accessible than Treasury securities and require a higher interest rate than similar Treasury securities. The $30 billion in REFCORP borrowing authorized by FIRREA adds about $2 billion, on a present value basis, to the interest payments that the Treasury is obligated to make over the next 40 years.

CBO agrees that additional funding for losses and working capital should come from the Treasury, because it would minimize the government's cost and maximize the government's flexibility. The Treasury could provide the funds for working capital in either of two ways--through Treasury lending to the RTC, or through direct appropriations. Under current law, the Treasury finances the RTC's requirements for working capital by borrowing funds and lending them to the RTC; the RTC, in turn, pays interest to the FFB, the arm of the Treasury that handles such transactions. In this way, the costs of financing asset acquisitions and sales are charged against the RTC's losses. Alternatively, because the RTC will need to rely on the Treasury to fund its future shortfalls, it also is possible to dispense with the FFB transactions and simply provide appropriations for all of the RTC's funding needs, whether for losses or working capital. Under this arrangement, no interest costs would be charged to the RTC for these funds. Continuing the financing arrangement with the FFB would, however, more accurately track the carrying costs associated with asset disposition and might provide incentives to the RTC to sell assets quickly.

Indefinite versus Definite Appropriations

In July, the Treasury suggested that the Congress could provide the RTC with a specific amount--in the range of $5 billion to $10 billion--which would be enough to last the agency until February 1991, when the Administration's study on deposit insurance reform would be available. As an alternative, the Congress could provide specific funding to cover a longer period of time or a permanent, indefinite appropriation to complete the job of resolving failed thrifts. The selection of the funding mechanism reflects trade-offs between the amount of flexibility provided to the RTC and the amount of control retained by the Congress.

Permanent, Indefinite Appropriation. Because of the uncertainty over the amount and timing of losses associated with closing hundreds of failed thrifts, and in view of the mandatory nature of the payments, the Congress could provide permanent, indefinite funding for the RTC, as the Treasury has requested. This type of approach is typically used for programs for which payments are not discretionary, such as Social Security or Medicare. This approach would provide the RTC with sufficient resources and flexibility to move at its optimum speed, and would not force the agency to adjust its caseload because of inadequate cash.

At the same time, authorizing an agency to spend with no effective cap raises concerns about possible loss of Congressional oversight and control. Oversight is obviously important, given the large amounts of RTC funding required, the effect that this spending will have on communities throughout the country, and the potential for waste and mismanagement. The relevant committees, however, already conduct exhaustive oversight of the agencies charged with responsibility for handling the thrift crisis. One way to reconcile these objectives would be to appropriate indefinite amounts but limit the time period over which the RTC could exercise this authority--for example, a year or two.

Definite Appropriation. FIRREA provided a definite appropriation of $18.8 billion to the RTC in 1989 to help capitalize the agency and an overall limit of $50 billion to pay insurance losses. Similarly, the Congress again could appropriate a specific amount to the RTC. One problem with this approach is choosing an amount. Given the uncertainty surrounding the estimate of future losses, such an amount might fall short of the RTC's needs. (CBO estimates that close to $100 billion in additional funds to cover losses and at least $60 billion in working capital will be required over the next five years.) To the extent that funding was inadequate, delays and uncertainty could result, as they have in the past, and add to the government's costs. Those who favor a specific funding request argue that the role of the Congress requires regular review and approval of agency spending, particularly given the concern over the way funds have been spent for thrift resolutions in the past and the potential for future abuses.

CONCLUSION

The costs of resolving the savings and loan crisis will substantially exceed the funding provided so far. CBO projections prepared in June, which assume the RTC receives sufficient funds to close or merge over 900 failed thrifts, would result in net outlays of $70 billion in 1991, $60 billion in 1992, and $13 billion in 1993. Congressional action is clearly needed to provide additional funds to the RTC as soon as possible in order to prevent delays that would boost the long-run costs of resolving failed savings and loans. The cheapest and quickest source of funds is the Treasury. The Congress could either specify an amount that the RTC could use or provide the RTC with an indefinite appropriation. The annual spending for the RTC should be excluded when assessing whether the Balanced Budget Act targets have been met. But the targets themselves could be made more ambitious, depending on the macroeconomic objectives one seeks. In any case, all RTC spending should be on-budget.

Mr. PICKLE. I thank you, Mr. Reischauer.

Apparently, we have a vote on, but let me in the interest of time ask you gentlemen some questions now.

Mr. Reischauer, have you had the opportunity to review the current situation regarding the FDIC, particularly with reference to the solvency of that fund? Have you got any views on the solvency of the FDIC at the present time?

Mr. REISCHAUER. Yes, Mr. Chairman. As a matter of fact, I testified last week before the Senate Banking Committee and at that time released some new estimates that the Congressional Budget Office had done on the position of the bank insurance fund, if that is what you are referring to.

Mr. PICKLE. The question has been raised whether we actually have enough funds in the FDIC fund to take care of any kind of a run on that fund through the failure of banks.

The House passed an additional increase in premiums on Monday. Is that sufficient to allay our fears that they might not have sufficient funds?

Mr. REISCHAUER. CBO's estimates are that the increases in bank premiums to 19.5 cents and the new flexibility provided by the bill that passed the House several days ago would, under normal circumstances or assuming the economy does not deteriorate significantly, be sufficient to keep the fund solvent.

However, the fund will deteriorate slightly between now and 1993 before it turns the corner and begins accumulating larger and larger reserves.

The situation that we are in right now is one in which the fund is close to the edge. FIRREA suggested that a desirable ratio of fund reserves to deposits would be 1.25 percent. At the end of calendar year 1989. The fund reserve amounted to only seven-tenths of 1 percent. It will probably deteriorate to about four-tenths or five-tenths of 1 percent by 1993. So we are going to have to keep our fingers crossed on this one.

If one large bank failed, if one of the major banks in this country failed, it could put the fund under.

Mr. PICKLE. Now, in your statement to us this morning with respect to the RTC, you said that the total cost of the bailout would be nearly $250 billion——

Mr. REISCHAUER. That includes——

Mr. PICKLE. That assumes certain economic assumptions. Did your estimate take into consideration the notice of the increased consumer energy prices that has become apparent within the last few days; does that $250 billion include that also as part of your estimate?

Mr. REISCHAUER. CBO's estimate is premised on modest economic growth throughout the rest of this century. CBO hasn't taken into account shortrun fluctuations in the economy. As I said in my prepared statement, should the economy slip into a significant recession, the cost undoubtedly would be pushed up.

Mr. PICKLE. And you are saying that with respect to FDIC, we have to keep our fingers crossed that the economy will perform and we——

Mr. REISCHAUER. Correct. We should have our fingers crossed on both hands.

Mr. PICKLE. So you are saying we've got to have all fingers on both hands crossed and a little prayer also.

Mr. REISCHAUER. Right.

Mr. PICKLE. And good luck.

Mr. REISCHAUER. Correct.

Mr. PICKLE. Now, you also said in your testimony that Congress could finance this bailout by either additional borrowing from the Treasury for either a limited or indefinite time. Do you make a specific recommendation as to which you think would be best?

Mr. REISCHAUER. This is really a decision for the Congress to make because flexibility for the RTC and a desire to have it operate in an efficient and unconstrained manner must be balanced against the understandable concern that the Congress has had over the management of this operation. I think that the Congress would want to maintain oversight and control over this.

Mr. PICKLE. All right. Let me ask Mr. Bowsher, first, I want to thank you on behalf of the Oversight Subcommittee for this booklet that you have compiled for us. I recognize that this has taken a great deal of work to compile, but it is basic information that the Oversight Subcommittee needs. And I recognize that it took a lot of work, but I appreciate it, and I want to thank you for it.

Mr. BOWSHER. You bet.

Mr. PICKLE. Now, when you said in your testimony that the best way to fund the bailout in the immediate future would be to increase the capital to maximum obligation from $50 to $100 billion, does that include working capital also?

Mr. BOWSHER. No. I think the working capital would be in addition. What you are talking about here is $50 billion of additional moneys for the losses.

Mr. PICKLE. So you would need another $50 billion. Now, you said presently, if we gave them what they were asking for, that would take care of the problem "for some time".

Mr. BOWSHER. That's correct.

Mr. PICKLE. How much is "some time"?

Mr. BOWSHER. About the next year, maybe a little longer than that, but probably for the next year.

Mr. PICKLE. In other words, if we could meet their request and make the appropriation that they are asking for today, that ought to hold them for a year?

Mr. BOWSHER. That's correct. That is our best estimate right now.

Mr. PICKLE. Now, did GAO have any views with respect to the mechanism they should use with respect to seller financing? Should they have in place some seller financing operation, or do you have a viewpoint on that?

Mr. BOWSHER. No, we have not studied that. That is something that we might should study in the future, but we have not done any work on that to date.

Mr. PICKLE. We've got a vote on, Mr. Bowsher, and I am concerned about the time on it.

Your testimony referred to the high cost of REFCORP borrowing. Should RTC use this $12 billion in unused REFCORP borrowing authority?

Mr. BOWSHER. Should they use it? They might as well, yes; it is there, so I think they should.

Mr. PICKLE. You know, we've got an unusual question. We had $50 billion that we gave them. About $18.8 billion of that was really REFCORP borrowing, and they were supposed to be limited to the $50 billion plus 80 percent of the market value of RTC assets. At the same time, they've got $18.8 billion through REFCORP borrowing that they haven't used. Isn't that money that they would owe; isn't that part of the total obligation, also, from an accounting standpoint?

Mr. BOWSHER. Let me ask my colleague to answer that.

Mr. PICKLE. Mr. Gramling.

Mr. GRAMLING. The answer is yes, the $18.8 billion is money that RTC has obtained from Treasury. However, within the obligation restrictions provided by FIRREA—and I think this is what Mr. Seidman was saying earlier—they are going to be up against the obligation limit and therefore will not be able to use the entire $50 billion provided by FIRREA.

Mr. PICKLE. Well, this is a question of some disagreement between us and the RTC, but I think obviously it is a part of the borrowing total and has to be considered and accounted for. But I didn't have a chance to ask Mr. Seidman about that matter.

One last question. I understand in your report that you said in some cases these regional offices were using quick foreclosures more promptly than they should have. In the San Antonio area, you pointed out that in some cases loans were being called because of these quick decisions by some of these field people.

Have any of you people here had a part of that investigation, or is that somebody else in your GAO organization?

Mr. GIANNI. Mr. Chairman, what we identified in the Southwest related to foreclosure of individual loans as opposed to the foreclosure of an individual thrift; so we focused in on the closure of loans, what you had previously asked Mr. Seidman about. We found that they were, early on in their activity, foreclosing on some loans in a hasty manner and that, after your field hearing in Austin, they found that their staff had a little bit of inexperience in this area, and they decided to——

Mr. PICKLE. Had a little what?

Mr. GIANNI [continuing]. They were inexperienced in the process of closing down loans, so they were hastily moving toward foreclosure. So now what they are doing is, through better instruction, better oversight and monitoring, trying to ensure that the loans are continued and worked out.

Mr. PICKLE. I appreciate your comment on that.

Another matter that bothers me, but this is not the time to go into it—these auditors go into a savings and loan or into a bank, and they say this property now you've got listed for $300,000, and it is not worth but $200,000—or whatever it is, but you downsize it—and the judgment now of that auditor apparently prevails under the law, and it means that that institution has got to either put up extra money, or they can be closed down. And a lot of our institutions have been closed down because these auditors have gone in and just automatically downgraded the value of the property that this institution has.

Now, it is questionable whether the property was really overvalued or whether it had just changed that much. But when you give the Government the authority to go in and literally close down these institutions, there is a possibility of great damage being done to an institution that is struggling and who really says their knowledge is more important than that sometimes inexperienced banker. Now, I'm not making accusations, but I do know it is a serious problem, and I think it ought to be looked into. So I may ask GAO to actually go in and look into some of these areas to see how that does really affect the solvency of many of these institutions. But that is something I can follow through on.

We must conclude this hearing because of the vote that is on. I have other questions, but we'll submit them to both of you in writing.

[No questions were submitted.]

Mr. PICKLE. Meanwhile, I thank you very much. This has been a good hearing, and I appreciate your cooperation.

[Whereupon, at 1:32 p.m., the hearing was adjourned.]

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